

EXHIBIT

89

10-Q 1 fxcm-20140630x10q.htm 10-Q

**Exhibit
0025**

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2014
or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to
Commission File Number 001-34986**

FXCM Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

27-3268672

(I.R.S. Employer
Identification No.)

**55 Water Street, FL 50
New York, NY 10041**

(Address of principal executive offices) (Zip Code)

Telephone: (646) 432-2986

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of the registrant's Class A common stock, par value \$0.01 per share, outstanding was 45,909,957 as of August 6, 2014. The number of shares of the registrant's Class B common stock, par value \$0.01 per share, outstanding as of August 6, 2014 was 38.

[Table of Contents](#)

FXCM INC.
QUARTERLY REPORT ON FORM 10-Q
For the quarterly period ended June 30, 2014

Table of Contents

<u>Item Number</u>	<u>Page</u>
<u>PART I — FINANCIAL INFORMATION</u>	
Item 1. Financial Statements	1
Condensed Consolidated Statements of Financial Condition - June 30, 2014 (Unaudited) and December 31, 2013	1
Condensed Consolidated Statements of Operations (Unaudited) - Three and Six Months Ended June 30, 2014 and 2013	2
Condensed Consolidated Statements of Comprehensive Income (Unaudited) - Three and Six Months Ended June 30, 2014 and 2013	3
Condensed Consolidated Statements of Stockholders' Equity (Unaudited) - Six Months Ended June 30, 2014 and 2013	4
Condensed Consolidated Statements of Cash Flows (Unaudited) - Six Months Ended June 30, 2014 and 2013	6
Notes to Condensed Consolidated Financial Statements (Unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	39
Item 3. Quantitative and Qualitative Disclosures About Market Risk	65
Item 4. Controls and Procedures	67
<u>PART II — OTHER INFORMATION</u>	
Item 1. Legal Proceedings	69
Item 1A. Risk Factors	69
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	69
Item 3. Defaults Upon Senior Securities	70
Item 4. Mine Safety Disclosures	70
Item 5. Other Information	70
Item 6. Exhibits	70
SIGNATURES	72

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “seeks,” “approximately,” “predicts,” “intends,” “plans,” “estimates,” “anticipates” or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013 and as updated in this Quarterly Report. Additional risk factors may be described from time to time in our future filings with the Securities and Exchange Commission. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

[Table of Contents](#)**PART I****Item 1 — Financial Statements****FXCM Inc.****Condensed Consolidated Statements of Financial Condition**

	June 30, 2014 (Unaudited)	December 31, 2013
	(Amounts in thousands, except share data)	
Assets		
Current assets		
Cash and cash equivalents	\$ 348,763	\$ 365,245
Cash and cash equivalents, held for customers	1,312,270	1,190,880
Trading securities	614	—
Due from brokers	24,357	5,450
Accounts receivable, net	13,170	9,953
Deferred tax asset	7,850	11,910
Notes receivable	—	5,992
Tax receivable	9,756	3,861
Total current assets	1,716,780	1,593,291
Deferred tax asset	171,266	166,576
Office, communication and computer equipment, net	50,654	49,165
Goodwill	328,891	307,936
Other intangible assets, net	69,269	76,713
Notes receivable	9,608	5,950
Other assets	29,482	24,316
Total assets	\$ 2,375,950	\$ 2,223,947
Liabilities and Equity		
Current liabilities		
Customer account liabilities	\$ 1,312,270	\$ 1,190,880
Accounts payable and accrued expenses	56,944	69,697
Credit agreement	25,000	—
Notes payable	7,460	9,800
Due to brokers	15,699	8,652
Securities sold, not yet purchased	3,435	—
Deferred tax liability	88	—
Due to related parties pursuant to tax receivable agreement	14,880	18,588
Total current liabilities	1,435,776	1,297,617
Deferred tax liability	3,439	3,687
Due to related parties pursuant to tax receivable agreement	137,157	131,670
Senior convertible notes	148,900	146,303
Other liabilities	5,957	9,289
Total liabilities	1,731,229	1,588,566
Commitments and Contingencies (see Note 13)		
Stockholders' Equity		
Class A common stock, par value \$0.01 per share; 3,000,000,000 shares authorized,	459	447

45,909,957 and 44,664,884 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively

Class B common stock, par value \$0.01 per share; 1,000,000 shares authorized, 38 and 41 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively

	1	1
Additional paid-in capital	256,508	245,426
Retained earnings	9,849	16,352
Accumulated other comprehensive loss	(2,817)	(5,344)
Total stockholders' equity FXCM Inc.	264,000	256,882
Non-controlling interests	380,721	378,499
Total stockholders' equity	644,721	635,381
Total liabilities and stockholders' equity	\$ 2,375,950	\$ 2,223,947

See accompanying notes to the unaudited condensed consolidated financial statements.

[Table of Contents](#)

FXCM Inc.

Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Amounts in thousands, except per share data)			
Revenues				
Retail trading revenue	\$ 73,736	\$ 104,068	\$ 156,396	\$ 195,322
Institutional trading revenue	21,787	31,792	47,937	59,348
Trading revenue	95,523	135,860	204,333	254,670
Interest income	693	670	1,256	1,349
Brokerage interest expense	(164)	(69)	(260)	(124)
Net interest revenue	529	601	996	1,225
Other income	1,875	3,672	7,606	7,102
Total net revenues	97,927	140,133	212,935	262,997
Operating Expenses				
Compensation and benefits	28,821	26,587	58,711	50,120
Allocation of net income to Lucid members for services provided	2,315	15,004	5,288	15,004
Total compensation and benefits	31,136	41,591	63,999	65,124
Referring broker fees	16,495	22,422	35,617	43,772
Advertising and marketing	7,084	6,157	13,581	13,508
Communication and technology	12,031	9,765	24,250	18,120
Trading costs, prime brokerage and clearing fees	8,030	8,961	16,236	16,899
General and administrative	15,611	13,423	31,679	25,894
Depreciation and amortization	13,122	12,481	25,752	24,455
Total operating expenses	103,509	114,800	211,114	207,772
Total operating (loss) income	(5,582)	25,333	1,821	55,225
Other Expense				
Loss on equity method investments, net	224	397	534	545
Interest on borrowings	3,096	1,290	6,093	2,107
(Loss) income before income taxes	(8,902)	23,646	(4,806)	52,573
Income tax (benefit) provision	(747)	6,390	504	14,349
Net (loss) income	(8,155)	17,256	(5,310)	38,224
Net (loss) income attributable to non-controlling interest in FXCM Holdings, LLC	(2,209)	14,093	218	24,323
Net loss attributable to other non-controlling interests	(2,868)	(6,961)	(4,527)	(3,083)
Net (loss) income attributable to FXCM Inc.	<u>\$ (3,078)</u>	<u>\$ 10,124</u>	<u>\$ (1,001)</u>	<u>\$ 16,984</u>
Weighted average shares of Class A common stock outstanding:				
Basic	40,287	30,695	37,793	29,589
Diluted	40,287	31,829	37,793	30,759
Net (loss) income per share attributable to stockholders of Class A common stock of FXCM Inc.:				
Basic	\$ (0.08)	\$ 0.33	\$ (0.03)	\$ 0.57
Diluted	\$ (0.08)	\$ 0.32	\$ (0.03)	\$ 0.55

Dividends declared per common share	\$	0.06	\$	0.06	\$	0.12	\$	0.12
-------------------------------------	----	------	----	------	----	------	----	------

See accompanying notes to the unaudited condensed consolidated financial statements.

FXCM Inc.**Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Amounts in thousands)			
Net (loss) income	\$ (8,155)	\$ 17,256	\$ (5,310)	\$ 38,224
Other comprehensive income (loss)				
Foreign currency translation gain (loss)	3,066	(3,438)	4,723	(12,734)
Income tax (benefit) expense	—	(130)	166	(127)
Other comprehensive income (loss), net of tax	3,066	(3,308)	4,557	(12,607)
Comprehensive (loss) income	(5,089)	13,948	(753)	25,617
Comprehensive (loss) income attributable to non-controlling interest in FXCM Holdings, LLC	(863)	12,326	2,248	17,289
Comprehensive loss attributable to other non-controlling interests	(2,868)	(6,961)	(4,527)	(3,083)
Comprehensive (loss) income attributable to FXCM Inc.	<u>\$ (1,358)</u>	<u>\$ 8,583</u>	<u>\$ 1,526</u>	<u>\$ 11,411</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

[Table of Contents](#)**FXCM Inc.****Condensed Consolidated Statements of Stockholders' Equity (Unaudited)**
(Amounts in thousands, except share amounts)

		FXCM Inc.							
	Non- controlling Interests	Retained Earnings	Accumulated Other Comprehensive Loss	Additional Paid-in Capital	Common Stock - Class B		Common Stock - Class A		Total Stockholders' Equity
					Shares	Dollars	Shares	Dollars	
Balance as of January 1, 2014	\$ 378,499	\$ 16,352	\$ (5,344)	\$ 245,426	41	\$ 1	44,664,884	\$ 447	\$ 635,381
Net loss	(4,309)	(1,001)	—	—	—	—	—	—	(5,310)
Other comprehensive income, net of tax	2,030	—	2,527	—	—	—	—	—	4,557
Comprehensive (loss) income	(2,279)	(1,001)	2,527	—	—	—	—	—	(753)
Repurchase of Class A common stock	(175)	—	—	(469)	—	—	(45,985)		(644)
Class A common stock									
Equity based compensation	3,276	—	—	4,010	—	—	163,832	1	7,287
Dividends on Class A common stock	—	(5,502)	—	—	—	—	—	—	(5,502)
Exchange of Holdings units to Class A common stock (see Note 7)	(5,568)	—	—	5,558	(3)	—	1,017,076	10	—
Stock options exercised	505	—	—	1,015	—	—	110,150	1	1,521
Effects of Tax Receivable Agreement	—	—	—	968	—	—	—	—	968
Contributions (other non-controlling interests)	10,744	—	—	—	—	—	—	—	10,744
Distributions - non-controlling members	(4,281)	—	—	—	—	—	—	—	(4,281)
Balance as of June 30, 2014	\$ 380,721	\$ 9,849	\$ (2,817)	\$ 256,508	38	\$ 1	45,909,957	\$ 459	\$ 644,721

See accompanying notes to the unaudited condensed consolidated financial statements.

[Table of Contents](#)**FXCM Inc.****Condensed Consolidated Statements of Stockholders' Equity (Unaudited)**

(Amounts in thousands, except share amounts)

	FXCM Inc.								
	Non-controlling Interest	Retained Earnings	Accumulated Other Comprehensive Income	Additional Paid-in Capital	Common Stock - Class B		Common Stock - Class A		Total Stockholders' Equity
					Shares	Dollars	Shares	Dollars	
Balance as of January 1, 2013	\$ 393,356	\$ 11,122	\$ (1,301)	\$ 171,390	43	\$ 1	34,683,599	\$ 347	\$ 574,915
Net income	21,240	16,984	—	—	—	—	—	—	38,224
Other comprehensive loss, net of tax	(7,034)	—	(5,573)	—	—	—	—	—	(12,607)
Comprehensive income (loss)	14,206	16,984	(5,573)	—	—	—	—	—	25,617
Repurchase of Class A common stock	(3,993)	—	—	(8,017)	—	—	(853,400)	(9)	(12,019)
Class A common stock									
Equity based compensation	4,006	—	—	3,255	—	—	—	—	7,261
Dividends on Class A common stock	—	(4,435)	—	—	—	—	—	—	(4,435)
Exchange of Holdings units to Class A common stock (See Note 7)	(19,831)	—	—	19,791	(4)	—	3,982,494	40	—
Assignment of permitted transferees	—	—	—	—	1	—	—	—	—
Stock options exercised	902	—	—	1,793	—	—	200,100	2	2,697
Effects of Tax Receivable Agreement	—	—	—	2,217	—	—	—	—	2,217
Equity component of Convertible Note issuance	15,512	—	—	13,589	—	—	—	—	29,101
Sale of warrants	9,903	—	—	8,675	—	—	—	—	18,578
Purchase of Convertible Note hedges	(15,512)	—	—	(13,589)	—	—	—	—	(29,101)
Distributions - non-controlling members	(7,929)	—	—	—	—	—	—	—	(7,929)
Balance as of June 30, 2013	\$ 390,620	\$ 23,671	\$ (6,874)	\$ 199,104	40	\$ 1	38,012,793	\$ 380	\$ 606,902

See accompanying notes to the unaudited condensed consolidated financial statements.

[Table of Contents](#)

FXCM Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
	2014	2013
	(Amounts in thousands)	
Cash Flows From Operating Activities		
Net (loss) income	\$ (5,310)	\$ 38,224
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities		
Depreciation and amortization	25,752	24,455
Equity-based compensation	6,700	6,517
Deferred tax expense	5,543	7,685
Gain on Follow-on Payment	(3,672)	—
Loss on disposal of fixed assets	10	126
Amortization of deferred bond discount	2,597	390
Amortization of deferred financing cost	906	330
Loss on equity investment	534	545
Changes in operating assets and liabilities		
Cash and cash equivalents, held for customers	(122,920)	20,263
Trading securities	(614)	—
Due from brokers	(18,906)	2,523
Accounts receivable, net	(3,240)	(22,043)
Tax receivable	(5,895)	5,065
Other assets	2,738	1,740
Customer account liabilities	121,392	(19,275)
Accounts payable and accrued expenses	(12,862)	5,633
Other liabilities	340	—
Payments for tax receivable agreement	(3,707)	(4,079)
Due to brokers	7,047	28,679
Securities sold, not yet purchased	3,435	—
Foreign currency remeasurement loss	102	(1,732)
Net cash (used in) provided by operating activities	(30)	95,046
Cash Flows From Investing Activities		
Purchases of office, communication and computer equipment	(11,328)	(10,961)
Purchase of intangible assets	(4,417)	(28)
Acquisition of business, net of cash acquired	(21,791)	(22,867)
Issuance of notes receivable	(1,500)	—
Payments for equity investment	—	(3,000)
Net cash used in investing activities	(39,036)	(36,856)
Cash Flows From Financing Activities		
Distributions - non-controlling members	(4,281)	(7,929)
Contributions from other non-controlling members	2,463	—
Dividends paid	(5,502)	(4,435)
Proceeds from exercise of stock options	1,521	2,697
Stock repurchase	(644)	(12,019)
Proceeds from issuance of senior convertibles notes, net	—	166,474
Purchase of convertible note hedges	—	(29,101)

Proceeds from sale of warrants	—	18,578
Borrowings under the credit agreement	50,000	10,000
Payments on borrowings under the credit agreement	(25,000)	(95,000)
Net cash provided by financing activities	18,557	49,265
Effect of foreign currency exchange rate changes on cash and cash equivalents	4,027	(6,042)
Net (decrease) increase in cash and cash equivalents	(16,482)	101,413
Cash and Cash Equivalents		
Beginning of year	365,245	272,332
End of period	<u>\$ 348,763</u>	<u>\$ 373,745</u>
Supplemental disclosures of cash flow activities		
Cash paid for taxes	\$ 402	\$ 487
Cash paid for interest	\$ 2,578	\$ 1,207
Supplemental disclosure of non-cash investing activities		
Notes receivable credited towards consideration for acquisition of business	\$ 11,942	\$ —
Supplemental disclosure of non-cash financing activities		
Exchange of Holdings Units for shares of Class A common stock	\$ 5,568	\$ 19,831
Business acquisition consideration payable	\$ —	\$ 15,300
Notes issued for capital	\$ 8,279	\$ —

See accompanying notes to the unaudited condensed consolidated financial statements.

FXCM Inc.**Notes to Unaudited Condensed Consolidated Financial Statements****Note 1. Description of Business and Basis of Presentation****Description of Business**

FXCM Inc. (the "Corporation"), a Delaware holding company incorporated on August 10, 2010, is a global online provider of foreign exchange ("FX") trading and related services to retail and institutional customers worldwide. The Corporation operates through its managing membership interest in FXCM Holdings, LLC ("Holdings"), the Corporation's sole operating asset. Holdings is a majority-owned, controlled and consolidated subsidiary of the Corporation. As used in these notes, the term "Company" collectively refers to the Corporation, Holdings and subsidiaries of Holdings.

Basis of Presentation***Basis of Consolidation***

The accompanying condensed consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Company consolidates those entities in which it is the primary beneficiary of a variable-interest entity ("VIE") as required by Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic ("ASC") 810, *Consolidations* ("ASC 810"), or entities where it has a controlling interest. Intercompany accounts and transactions are eliminated in consolidation.

As indicated above, the Corporation operates and controls all of the businesses and affairs of Holdings and its subsidiaries. As such, the Corporation consolidates the financial results of Holdings and records a non-controlling interest for the economic interest in Holdings not owned by the Corporation. The Corporation's and the non-controlling unit holders' economic interest in Holdings was 56.2% and 43.8%, respectively, as of June 30, 2014. The Corporation's and the non-controlling unit holders' economic interest in Holdings was 54.8% and 45.2%, respectively, as of December 31, 2013.

Net income attributable to the non-controlling interest in Holdings in the condensed consolidated statements of operations represents the portion of earnings or loss attributable to the economic interest in Holdings held by the non-controlling unit holders. Net income attributable to other non-controlling interests in the condensed consolidated statements of operations represents the portion of net income attributable to the non-controlling interests of Lucid Markets Trading Limited ("Lucid"), Faros Trading LLC ("Faros"), V3 Markets, LLC ("V3") (see Note 3) and other consolidated entities. Net income attributable to the non-controlling interest in Lucid represents the portion of earnings or loss attributable to the 49.9% economic interest held by Lucid non-controlling members whose allocation among the non-controlling members is not contingent upon services being provided. The portion of the 49.9% of Lucid earnings allocated among the non-controlling members of Lucid contingent on services provided is reported as a component of compensation expense under Allocation of net income to Lucid members for services provided in the condensed consolidated statements of operations. Net income or loss attributable to the non-controlling interests in Faros and V3 represent the portion of earnings or loss attributable to the 49.9% economic interest held by Faros and V3 non-controlling members. Net income or loss attributable to the non-controlling interests in other consolidated entities represents the portion of earnings or loss attributable to the economic interests held by the non-controlling members.

Non-controlling interest in the condensed consolidated statements of financial condition represents the portion of equity attributable to the non-controlling interests of Holdings, Lucid, Faros, V3 and other consolidated entities. The allocation of equity to other non-controlling interests is based on the percentage owned by the non-controlling interest in the respective entity.

FXCM Inc.**Notes to Unaudited Condensed Consolidated Financial Statements****Note 1. Description of Business and Basis of Presentation (continued)**

The Company's condensed consolidated financial statements include the following significant subsidiaries of Holdings:

Forex Capital Markets L.L.C.	("US")
FXCM Asia Limited	("HK")
Forex Capital Markets Limited	("UK LTD")
FXCM Australia Limited	("Australia")
ODL Group Limited	("ODL")
FXCM Securities Limited	("FSL")
FXCM Japan Securities Co., Ltd.	("FXCMJ")
FXCM UK Merger Limited	("Merger")
Lucid Markets Trading Limited	("Lucid")
Lucid Markets LLP	("Lucid LLP")
Faros Trading LLC	("Faros")
V3 Markets, LLC	("V3")

Investments where the Company is deemed to exercise significant influence (generally defined as owning a voting interest of 20% to 50%), but no control, are accounted for using the equity method of accounting. The Company records its pro-rata share of earnings or losses each period and records any dividends as a reduction in the investment balance. The carrying value of these investments are included in Other assets in the condensed consolidated statements of financial condition and earnings or losses are included in Loss on equity method investments, net in the condensed consolidated statements of operations.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements as well as the reported amount of revenue and expenses during the year. Actual results could differ from those estimates and could have a material impact on the consolidated financial statements.

Reclassifications

Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

Interim Financial Statements

The Company believes that the condensed consolidated interim financial statements reflect all adjustments of a normal recurring nature and disclosures that are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full year. The interim financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. As permitted under Rule 10-01 of the Securities and Exchange Commission Regulation S-X, certain notes or other financial information are condensed or omitted in the interim condensed consolidated financial statements.

Accounting Pronouncement Adopted in 2014***Obligations Resulting from Joint and Several Liability Arrangements***

In February 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*. This standard requires an entity to measure obligations resulting from joint and several liability arrangements for which the total

FXCM Inc.**Notes to Unaudited Condensed Consolidated Financial Statements****Note 1. Description of Business and Basis of Presentation (continued)**

amount of the obligation is fixed at the reporting date as the sum of (i) the amount the entity agreed to pay on the basis of its arrangement among its co-obligors and (ii) any additional amount it expect to pay on behalf of its co-obligors.

This guidance became effective for the Company on January 1, 2014 and did not have a material impact on the presentation of the Company's unaudited condensed consolidated financial statements.

Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of an Investment within a Foreign Entity or of an Investment in a Foreign Entity

In March 2013, the FASB issued ASU No. 2013-05, *Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in Foreign Entity*. This standard addresses whether consolidation guidance or foreign currency guidance applies to the release of the cumulative translation adjustment into net income when a parent sells all or a part of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or net assets that are a business (other than a sale of in-substance real estate) within a foreign entity. The standard also resolves the diversity in practice for the cumulative translation adjustment treatment in business combinations achieved in stages involving foreign entities.

Under this standard, the entire amount of the cumulative translation adjustment associated with the foreign entity should be released into earnings when there has been: (i) a sale of a subsidiary or group of net assets within a foreign entity and the sale represents a complete or substantially complete liquidation of the foreign entity in which the subsidiary or the net assets had resided; (ii) a loss of a controlling financial interest in an investment in a foreign entity; or (iii) a change in accounting method from applying the equity method to an investment in a foreign entity to consolidating the foreign entity.

This guidance became effective for the Company on January 1, 2014 and did not have a material impact on the presentation of the Company's unaudited condensed consolidated financial statements.

Presentation of Unrecognized Tax Benefits

In July 2013, the FASB issued ASU No. 2013-11, *Presentation of Unrecognized Tax Benefits When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This standard requires a liability related to unrecognized tax benefits to be presented as a reduction to the related deferred tax asset for a net operating loss carryforward or a tax credit carryforward. When the carryforwards are not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the applicable jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit will be presented in the financial statements as a liability and will not be combined with the related deferred tax asset.

This guidance became effective for the Company on January 1, 2014 and did not have a material impact on the presentation of the Company's unaudited condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

Reporting Discontinued Operations

In April 2014, the FASB issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. Under this standard, a discontinued operation will include a disposal of a major part of an entity's operations and financial results such as a separate major line of business or a separate major geographical area of operations. The standard also raises the threshold to be a major operation but no longer precludes discontinued operations presentation where there is significant continuing involvement or cash flows with a disposed component of an entity. The standard expands disclosures to include cash flows where there is significant continuing involvement with a discontinued operation and the pre-tax profit or loss of disposal transactions not reported as discontinued operations. The standard is effective prospectively for years beginning on or after December 15, 2014, with early application permitted. The Company plans to adopt the standard prospectively on its required effective date of January 1, 2015 and the impact, if any, on the Company's consolidated financial condition, results of operations or cash flows will be dependent on the nature of future disposals.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The standard states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard sets out the following five steps an entity should apply to achieve this core principle.

[Table of Contents](#)**FXCM Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****Note 1. Description of Business and Basis of Presentation (continued)**

- Identify the contract(s) with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when (or as) the entity satisfies a performance obligation.

For a public entity, the standard is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is currently evaluating the impact this standard will have on its consolidated financial condition, results of operations, cash flows and disclosures and is currently unable to estimate the impact of adopting this guidance.

Note 2. Holdings

The Corporation consolidates the financial results of Holdings whereby it records a non-controlling interest for the economic interest in Holdings not owned by the Corporation. Pursuant to an agreement between the Corporation and Holdings, anytime the Corporation cancels, issues or repurchases shares of its Class A common stock, Holdings enters into an equivalent Holdings unit transaction with the Corporation so that at all times the number of shares of Class A common stock is equal to the Corporation's membership units in Holdings. In addition, anytime Holdings unit holders (other than the Corporation) exchange their units for shares of the Corporation's Class A common stock, Holdings is required to transfer an equal amount of units to the Corporation.

Changes in the non-controlling and the Corporation's interests in Holdings for the six months ended June 30, 2014 are presented in the following table:

	Controlling Units	Non-Controlling Units	Total Units	FXCM Inc.	Non-Controlling	Total
Balance as of January 1, 2014	44,664,884	36,835,821	81,500,705	54.8%	45.2 %	100.0%
Holdings units acquired by FXCM Inc. related to exchanges of Holdings units for shares of Class A common stock	1,017,076	(1,017,076)	—	1.2%	(1.2)%	—%
Holding units repurchased related to Class A common stock repurchased	(45,985)	—	(45,985)	—%	— %	—%
Exercise of stock options	110,150	—	110,150	0.1%	(0.1)%	—%
Issuance under equity based compensation	163,832	—	163,832	0.1%	(0.1)%	—%
Balance as of June 30, 2014	45,909,957	35,818,745	81,728,702	56.2%	43.8 %	100.0%

[Table of Contents](#)

FXCM Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Note 3. Business Acquisition

V3

On January 21, 2014, (the "V3 Acquisition Date") the Company, through a new entity, V3, created with the non-controlling members of Lucid, completed the acquisition of certain assets of Infinium Capital Holdings LLC ("Infinium") and certain of its affiliates. The acquisition expands the Lucid business model into a broader array of financial instruments and provides more robust connectivity to various financial exchanges. The consideration for the acquisition was approximately \$32.5 million consisting of cash, assumed liabilities and the credit of \$12.1 million of Infinium senior secured notes plus interest held and exchanged by a subsidiary of the Company. The Company holds a controlling 50.1% interest in V3.

The acquisition was accounted for in accordance with ASC 805, *Business Combinations* ("ASC 805"). The assets acquired and the non-controlling interest were recorded at their estimated fair values in accordance with ASC 820, *Fair Value Measurement* ("ASC 820") at the V3 Acquisition Date. Full goodwill of \$20.2 million was calculated as the fair value of estimated consideration over the estimated fair value of the net assets acquired. The estimated fair value of the non-controlling interest was \$16.2 million and was determined by the fair value of the consideration. Goodwill was allocated at the reporting unit level in the Institutional segment based on an analysis of the fair value of assets acquired. V3 is included in the Institutional segment for purposes of segment reporting (see Note 18).

During the three months ended June 30, 2014, the purchase price was decreased by \$0.9 million, due to the final determination of the assumed liabilities. In connection with this purchase price adjustment, the initial goodwill recorded was reduced by \$0.8 million to \$19.4 million.

V3 Purchase Price Allocation ⁽¹⁾

(Amounts in thousands)

Purchase price		\$	15,825
Non-Controlling interest			15,762
Total fair value at Acquisition Date			31,587
Net assets acquired	\$	10,210	
Adjustments to reflect acquired assets and liabilities at fair value			
Trading platform ⁽²⁾		950	
Processing platform ⁽³⁾		150	
Non-compete agreement ⁽⁴⁾		450	
Executory contract ⁽⁵⁾		470	
Fair value of net assets acquired			12,230
Goodwill resulting from the V3 acquisition		\$	19,357

- (1) The amounts included in the V3 Purchase Price Allocation table represent the allocation of the purchase price and includes revisions made during the 12 month remeasurement period from the V3 Acquisition Date.
- (2) Consists of internally developed software platforms that support trade execution, with an amortization life of 4 years.
- (3) Consists of an internally developed software platform that supports trading, with an amortization life of 5 years.
- (4) Amortization life is 1 year.
- (5) Consists of a service agreement relating to fiber optics, wireless and other services, with an amortization life of 3 years.

The amounts included in the V3 Purchase Price Allocation table represent the preliminary allocation of the purchase price and were subject to revision during the measurement period, a period not to exceed 12 months from the acquisition date. Adjustments to the provisional values during the measurement period were pushed back to the date of acquisition. Comparative information for periods after acquisition but before the period in which the adjustments were identified were adjusted to reflect

[Table of Contents](#)**FXCM Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****Note 3. Business Acquisition (continued)**

the effects of the adjustments as if they were taken into account as of the acquisition date. Changes to the amounts recorded as assets and liabilities resulted in a corresponding adjustment to goodwill.

Condensed Statement of Net Assets Acquired

The following condensed statement of net assets acquired reflects the amounts of V3 net assets recognized as of the V3 Acquisition Date, with amounts in thousands:

	<u>As of January 21, 2014</u>
Assets	
Office, communication and computer equipment, net	\$ 973
Intangible assets	2,020
Exchange memberships and common equity shares	6,429
Equity method investments, net	1,523
Other assets	1,392
Total assets	<u>\$ 12,337</u>
Liabilities	<u>(107)</u>
Fair value of net assets acquired	<u>\$ 12,230</u>

Condensed Combined Financial Information:

The following condensed financial information presents the resulting operations of V3 from the V3 Acquisition Date to June 30, 2014, with amounts in thousands:

	<u>For the period January 21, 2014 to June 30, 2014</u>
Total revenue	\$ 8,644
Net loss	\$ (2,572)

Faros

On September 20, 2013 (the "Faros Acquisition Date"), the Company acquired a 50.1% controlling interest in Faros. Faros is a global leader in foreign exchange intelligence, market coverage, and execution services to the institutional foreign exchange market. The acquisition further expands the Company's presence and capabilities in the institutional marketplace. As consideration, the Company provided an initial cash payment of \$5.0 million (the "Initial Payment") and a follow-on payment (the "Follow-on Payment") to be made in 2015 in an amount to be determined, based on the purchase agreement (the "Faros Purchase Agreement") estimated at \$10.6 million on the Faros Acquisition Date for a total estimated purchase price of \$15.6 million. Pursuant to the terms of the Faros Purchase Agreement, the Follow-on Payment is payable partly in shares of the Corporation's Class A common stock to one of the Faros sellers if certain criteria are met. Under the terms of the Faros Purchase Agreement, any of the Corporation's Class A common stock issued to the Faros seller will be restricted for sale until September 2021 if the Faros seller ceases to be employed by Faros as of either December 31, 2015 or December 31, 2016 for reasons other than death, disability or the sale of the majority of the Corporation's combined voting power. This restriction ("Faros Liquidity Restriction") has an estimated fair value of \$0.4 million and is accounted for as deferred compensation and recognized over the term of the restriction.

The Company has the option to buy out the remaining interest of the Faros sellers subject to the terms of the Faros Purchase Agreement. In the event the buyout is not exercised by the Company by December 31, 2017, the sellers have the right to market Faros for sale of all the membership interests of Faros.

The fair value of the Follow-on Payment is included in Other liabilities in the condensed consolidated statements of financial condition. Changes in the fair value of the Follow-on Payment subsequent to the Faros Acquisition Date are recognized in earnings in the period in which the change is recorded. The Company estimated the fair value of the Follow-

[Table of Contents](#)

FXCM Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Note 3. Business Acquisition (continued)

on Payment using both a discounted cash flow model and guideline public company model. This fair value measurement is based on significant inputs not observed in the market and thus represents Level III instruments as defined by ASC 820 (see Note 15). The discount rate considered in the assessment of the \$10.6 million Follow-on Payment at the Faros Acquisition Date was 25.0%. In December 2013, the Company recorded a reduction to the Follow-on Payment of \$6.9 million. In March 2014, the Company reduced the Follow-on Payment by the remaining \$3.7 million. The \$3.7 million decrease in the estimated fair value of the Follow-on Payment was recorded in Other income in the condensed consolidated statements of operations. The decline in the estimated fair value of the Follow-on Payment is due to lowering our Faros earnings before income taxes and depreciation ("EBITDA") estimate. The Company reassessed the Follow-on Payment liability at June 30, 2014 and determined that a fair value of zero was still appropriate.

The Acquisition was accounted for in accordance with ASC 805. The assets acquired, liabilities assumed and non-controlling interest were recorded at their estimated fair values in accordance with ASC 820 at the Acquisition Date as summarized in the table below. Full goodwill of \$23.0 million was calculated as the fair value of estimated consideration over the estimated fair value of the net assets acquired. The estimated fair value of the non-controlling interest was \$15.6 million, and was determined by valuing Faros using a discounted cash flow model and guideline public company model, less the Initial Payment and the Follow-on Payment. The estimate of the fair value of the non-controlling interest is based on an assumed discount rate of 25.0%, long term annual earnings growth rate of 3.0% and assumed adjustments due to the lack of control that market participants would consider when estimating the fair value of the non-controlling interest in Faros. Goodwill was allocated at the reporting unit level in the Institutional segment based on an analysis of the fair value of assets acquired and expected future benefits of synergies created from combining the Faros market making business with the Company's foreign exchange trading expertise. Faros is included in the Institutional segment for purposes of segment reporting (see Note 18).

Faros Purchase Price Allocation

(Amounts in thousands)

Purchase price		\$	15,631
Non-Controlling interest			15,569
Total fair value at Acquisition Date			31,200
Net assets acquired	\$	137	
Adjustments to reflect acquired assets and liabilities at fair value			
Customer relationships ⁽¹⁾		6,000	
Non-compete agreement ⁽²⁾		1,900	
Trade name ⁽³⁾		130	
Fair value of net assets acquired			8,167
Goodwill resulting from the Faros acquisition		\$	23,033

⁽¹⁾ Consists of institutional and bank customers, with an amortization life of 4 years.

⁽²⁾ Amortization life is 9 years.

⁽³⁾ Amortization life is 3 year.

The amounts included in the Faros Purchase Price Allocation table represent the preliminary allocation of the purchase price and are subject to revision during the remainder of the measurement period, a period not to exceed 12 months from the Faros Acquisition Date. Adjustments, if any, to the provisional values during the measurement period will be pushed back to the date of acquisition. Comparative information for periods after acquisition but before the period in which the adjustments are identified will be adjusted to reflect the effects of the adjustments as if they were taken into account as of the acquisition date. Changes to the amounts recorded as assets and liabilities may result in a corresponding adjustment to goodwill.

[Table of Contents](#)**FXCM Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****Note 3. Business Acquisition (continued)****Condensed Statement of Net Assets Acquired**

The following condensed statement of net assets acquired reflects the amounts of Faros net assets recognized as of the Faros Acquisition Date, with amounts in thousands:

	<u>As of September 20, 2013</u>
Assets	
Cash and cash equivalents	\$ 1,055
Accounts receivable, net	40
Office, communication and computer equipment, net	31
Intangible assets	8,030
Other assets	76
Total assets	<u>\$ 9,232</u>
Liabilities	
Accounts payable and accrued expenses	\$ 1,065
Total liabilities	<u>\$ 1,065</u>
Fair value of net assets acquired	<u>\$ 8,167</u>

Contingencies and Accounts Receivable

There were no contingent liabilities recorded in the fair value of net assets acquired as of the Faros Acquisition Date and the fair value of net assets acquired includes accounts receivables with book value that approximates fair value. There was no reserve netted against receivables as of the Faros Acquisition Date since based on current information and events, it is probable that the Company will collect all amounts due according to the contractual terms of the receivable.

Pro Forma Condensed Combined Financial Information

The Company's pro forma condensed combined financial information for the acquisitions completed in 2014 (i.e. V3), and 2013 (i.e., Faros) are presented as they may have appeared if all acquisitions had been completed on January 1, 2014 and 2013, with amounts in thousands:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Total revenue	\$ 97,927	\$ 157,614	\$ 212,935	\$ 292,662
Net (loss) income before non-controlling interest	\$ (8,155)	\$ 21,375	\$ (7,378)	\$ 43,119

These pro forma results for six months ended June 30, 2014 and 2013 primarily include the related tax impact as well as the adjustments for the intangible assets acquired.

Acquisition-related Costs

Acquisition-related transaction costs for the V3 acquisition were \$1.2 million for both the three and six months ended June 30, 2014. There were no acquisition related costs for the three and six months ended June 30, 2013. Acquisition-related transaction costs are included in General and administrative expense in the condensed consolidated statements of operations.

FXCM Inc.**Notes to Unaudited Condensed Consolidated Financial Statements****Note 4. Trading Securities**

Equity securities purchased with the intent to sell in the near-term are classified as trading securities and are carried at their fair value based on the quoted market prices of the securities. As of June 30, 2014 and December 31, 2013, trading securities amounted to \$0.6 million and nil, respectively.

Net realized and unrealized gains and losses on trading securities are included in Institutional trading revenue in the condensed consolidated statements of operations. For the purpose of determining realized gains and losses, the cost of securities sold is based on specific identification.

For the three and six months ended June 30, 2014 net realized and unrealized gains or losses related to trading securities were \$0.9 million and \$1.0 million. No net realized and unrealized gains and losses related to trading securities were recognized for the three and six months ended June 30, 2013.

Note 5. Equity Method Investments

On December 4, 2012, the Company completed the acquisition of a non-controlling equity interest in an electronic communication network for foreign exchange trading. As the Company holds a 35% equity interest and exerts significant influence, the investment is accounted for using the equity method and is included in institutional for purposes of segment reporting (see Note 18). The Company also has a 26.3% equity interest in a developer of FX trading software which is accounted for using the equity method and is included in corporate for purposes of segment reporting.

In conjunction with the V3 acquisition on January 21, 2014, the Company acquired a 66.3% non-controlling interest in an entity that holds a 17.26% interest in a firm that delivers investment information to investment professionals which is accounted for using the equity method and is included in the institutional segment for purposes of segment reporting.

As of June 30, 2014 and December 31, 2013, the Company's carrying values of equity method investments were \$10.8 million and \$9.8 million, respectively, and are included as a component of Other assets in the condensed consolidated statements of financial condition.

Loss on equity method investments was \$0.2 million and \$0.5 million for the three and six months ended June 30, 2014, respectively, and is included in Loss on equity method investments, net in the condensed consolidated statements of operations. Loss on equity method investments was \$0.4 million and \$0.5 million for the three and six months ended June 30, 2013, respectively, and is included in Loss on equity method investments, net in the condensed consolidated statements of operations.

The Company did not receive any dividend distributions from its equity method investments during the three and six months ended June 30, 2014. Dividends received from the Company's equity method investments during the three and six months ended June 30, 2013 were not material.

FXCM Inc.**Notes to Unaudited Condensed Consolidated Financial Statements****Note 6. Earnings per Share**

Basic earnings per share ("EPS") measures the performance of an entity over the reporting period. Diluted EPS measures the performance of an entity over the reporting period while giving effect to all potentially dilutive common shares that were outstanding during the period. The Company uses the treasury stock method in accordance with ASC 260, *Earnings per Share* ("ASC 260"), to determine diluted EPS.

In accordance with ASC 260, all outstanding unvested share-based payments that contain rights to non-forfeitable dividends participate in the undistributed earnings with the common stockholders and are therefore participating securities. The shares of Class B common stock do not share in the earnings of the Company and are therefore not participating securities. Accordingly, basic and diluted net earnings per share of Class B common stock have not been presented.

During the six months ended June 30, 2014, the Company granted 83,490 and 565,000 stock options to purchase shares of the Corporation's Class A common stock to its independent directors and employees, respectively. During the six months ended June 30, 2014 and 2013, stock options granted to certain employees, non-employees and independent directors in the aggregate of 1,084,490 and 8,937,414, respectively, were not included in the computation of earnings per common share because they were antidilutive under the treasury method.

The Company issued 7.2 million shares of the Corporation's Class A common stock in connection with the Lucid acquisition subject to the achievement of certain targets related to the financial performance of Lucid (the "Profit Targets"). The Lucid sellers achieved the Profit Targets for the first anniversary shares during the quarter ended June 30, 2013 and received 1.2 million shares in June 2013. During the six months ended June 30, 2014, the Lucid sellers achieved the Profit Targets for the 3.0 million second anniversary shares and these shares are included in the computation of basic EPS for the three and six months ended June 30, 2014. The shares were not included in diluted EPS as they would have an anti-dilutive effect since the shares would decrease the loss per share. If the third anniversary Profit Targets are achieved, the Lucid sellers are entitled to receive 3.0 million shares on the third anniversary of the acquisition date of June 18, 2012. In accordance with ASC 260, the third anniversary shares are considered contingently issuable shares. Accordingly, the third anniversary shares are considered outstanding common shares and included in basic EPS as of the date that all necessary conditions to receiving the shares have been satisfied (that is, when issuance of the shares is no longer contingent) and there is no circumstance under which those shares would not be issued. In accordance with ASC 260, shares are included in diluted EPS if all necessary conditions have been satisfied by the end of the period.

As described in Note 12, in June 2013 FXCM Inc. issued \$172.5 million principal amount of 2.25% senior convertible notes maturing on June 15, 2018 (the "Convertible Notes"). The Convertible Notes will be convertible at an initial conversion rate of 53.2992 shares of the Corporation's Class A common stock per \$1,000 principal amount of the Convertible Notes, which is equivalent to an initial conversion price of approximately \$18.76. In accordance with ASC 260, the shares of the Corporation's Class A common stock issuable upon conversion of the Convertible Notes are included in the calculation of diluted EPS to the extent that the conversion value of the securities exceeds the principal amount. For diluted EPS purposes, the number of shares of the Corporation's Class A common stock that is necessary to settle such excess is considered issued. For the three and six months ended June 30, 2014, the conversion value did not exceed the principal amount and therefore the conversion effect was not included in the computation of diluted EPS because it was antidilutive under the treasury method.

As described in Note 12, the Company also entered into a warrant transaction whereby the Company sold to the counterparties warrants to purchase shares of the Corporation's Class A common stock. For the three and six months ended June 30, 2014, the warrants were not included in the computation of diluted EPS because they were antidilutive under the treasury method.

Additionally, the non-controlling members of Holdings have the right to exchange their Holdings units for shares of the Corporation's Class A common stock on a one-for-one basis at fair value, subject to customary conversion rate adjustments for stock splits, stock dividends and reclassifications. These shares were also excluded from the computation of dilutive EPS because they were antidilutive under the treasury method. During the three and six months ended June 30, 2014 certain members of Holdings exchanged 0.1 million and 1.0 million, respectively, of their Holdings units, on a one-for-one basis, for shares of Class A common stock of the Corporation.

FXCM Inc.**Notes to Unaudited Condensed Consolidated Financial Statements****Note 6. Earnings per Share (continued)**

The following is a reconciliation of the numerator and denominator used in the basic and diluted EPS calculations, with amounts in thousands except per share data:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Basic and diluted net income per share:				
Numerator				
Net (loss) income available to holders of Class A common stock	\$ (3,078)	\$ 10,124	\$ (1,001)	\$ 16,984
Earnings allocated to participating securities	—	—	—	—
Earnings available for common stockholders	<u>\$ (3,078)</u>	<u>\$ 10,124</u>	<u>\$ (1,001)</u>	<u>\$ 16,984</u>
Denominator for basic net income per share of Class A common stock				
Weighted average shares of Class A common stock	40,287	30,695	37,793	29,589
Add dilutive effect of the following:				
Weighted average of Lucid's first anniversary shares issued on June 18, 2013	—	1,029	—	1,114
Stock options	—	105	—	56
Convertible note hedges	—	—	—	—
Warrants	—	—	—	—
Dilutive weighted average shares of Class A common stock	<u>40,287</u>	<u>31,829</u>	<u>37,793</u>	<u>30,759</u>
Basic (loss) income per share of Class A common stock	\$ (0.08)	\$ 0.33	\$ (0.03)	\$ 0.57
Diluted (loss) income per share of Class A common stock	\$ (0.08)	\$ 0.32	\$ (0.03)	\$ 0.55

[Table of Contents](#)**FXCM Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****Note 7. Related Party Transactions**

Amounts receivable from, and payable to, related parties are set forth below, with amounts in thousands:

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Receivables		
Advances to non-controlling unit holders	\$ 217	\$ 940
Accounts receivable - Lucid non-controlling members	171	—
Notes receivable and interest - Lucid non-controlling members	8,159	—
Advances to employees	778	826
	<u>\$ 9,325</u>	<u>\$ 1,766</u>
Payables		
Guarantee agreement	\$ 6,239	\$ 8,363
Employees with greater than 5% ownership in the Company	1,658	708
Shareholders with greater than 5% ownership in the Company	200	200
Due to Lucid non-controlling members in connection with the allocation of net income to Lucid non-controlling members for services provided	9,700	9,826
Due to Lucid non-controlling members in connection with trade settlements	1,231	169
Notes payable to Lucid non-controlling members in connection with the acquisition	7,460	9,800
Tax receivable agreement	152,037	150,257
Follow-on Payment	—	3,672
	<u>\$ 178,525</u>	<u>\$ 182,995</u>

The Company has advanced funds for withholding taxes to several non-controlling unit holders. The outstanding balance as of June 30, 2014 and December 31, 2013, included in the table above, is included in Accounts receivable, net in the condensed consolidated statements of financial condition.

As described in Note 3, V3 was formed by the Company and the non-controlling members of Lucid. The Company contributed capital of approximately \$16.3 million and the non-controlling members of Lucid contributed capital of approximately \$16.2 million. The non-controlling members of Lucid borrowed approximately \$8.1 million from the Company to assist with funding their portion of the capital contribution, which is included in Notes receivable in the condensed consolidated statement of financial condition as of June 30, 2014. The amount borrowed is due in 2017 and bears interest at the rate of 2% per annum. Interest income related to the notes receivable was not material for the three and six months ended June 30, 2014 and nil for the three and six months ended June 30, 2013. An additional \$0.2 million for their capital contribution is included in Accounts receivable, net in the condensed consolidated statements of financial condition.

The Company has advanced funds to several employees. The outstanding balances as of June 30, 2014 and December 31, 2013, included in the table above, are included in Accounts receivable, net in the condensed consolidated statements of financial condition.

Customer account liabilities in the condensed consolidated statements of financial condition include balances for employees and shareholders with greater than 5% ownership in the Company.

UK LTD is party to an arrangement with Global Finance Company (Cayman) Limited (“Global Finance”) and Master Capital Group, S.A.L. (“Master Capital”). A shareholder of the Company beneficially owns more than 90% of the equity of Global Finance and Master Capital. Pursuant to such arrangement, Global Finance and Master Capital are permitted to use the brand name “FXCM” and our technology platform to act as the Company’s local presence in certain countries in the Middle East and North Africa (“MENA”). UK collects and remits to Global Finance and Master Capital fees and commissions charged by Global Finance and Master Capital to customers in MENA countries. For the three and six months ended June 30, 2014, these fees and commissions were approximately \$0.3 million and \$0.6 million, respectively, and are included in the condensed consolidated statements of operations in Referring broker fees. For the three and six months ended June 30, 2013 these fees and

FXCM Inc.**Notes to Unaudited Condensed Consolidated Financial Statements****Note 7. Related Party Transactions (continued)**

commissions were approximately \$0.5 million and \$0.8 million, respectively, and are included in Referring broker fees in the condensed consolidated statements of operations. As of June 30, 2014, the shareholder described above beneficially owns less than 5% of the Corporation's Class A common stock.

In August 2012, the Company entered into a master guaranty agreement (the "Method Guaranty") with Method Credit Fund ("Method"), a Cayman Island company, owned by certain directors and shareholders of the Company, including several of the Company's executive officers. Pursuant to the Method Guaranty, Method unconditionally guaranteed the obligations of certain counterparties that maintained a margin account with the Company. The Method Guaranty required Method to maintain a cash collateral account held by the Company equal to the aggregate amount of margin extended to all counterparties covered by the Method Guaranty. In exchange for this unconditional guaranty, the Company remitted a fee to Method determined on a counterparty by counterparty basis which was agreed upon by the Company, Method and the respective counterparty. The agreement was terminated in November 2013 and upon termination, the aggregate amount of margin extended under the Method Guaranty was reduced to zero. As of June 30, 2014 and December 31, 2013, the aggregate amount of margin extended under the Method Guaranty was zero. During the three and six months ended June 30, 2013, no payments were made by Method to the Company to satisfy a guaranteed counterparty obligation. For the three and six months ended June 30, 2013, fees collected from counterparties and subsequently remitted to Method by the Company were not material and are included in Referring broker fees in the condensed consolidated statements of operations.

In November 2013, the Company entered into a master guaranty agreement (the "Monetary Guaranty") with Monetary Credit Group LLC ("Monetary"), a newly formed Texas limited liability company, owned by certain directors and shareholders of the Company, including several of the Company's executive officers. Pursuant to the Monetary Guaranty, Monetary unconditionally guarantees the obligations of certain counterparties that maintain a margin account with the Company. The Monetary Guaranty requires Monetary to maintain a cash collateral account held by the Company equal to the aggregate amount of margin extended to all counterparties covered by the Monetary Guaranty. In exchange for this unconditional guaranty, the Company remits a fee to Monetary determined on a counterparty by counterparty basis which is agreed upon by the Company, Monetary and the respective counterparty. The Monetary Guaranty may be terminated by either the Company or Monetary at any time provided that if Monetary elects to terminate there are no guaranteed obligations outstanding. As of June 30, 2014 and December 31, 2013, the aggregate amount of margin extended under the Monetary Guaranty was \$10.3 million and \$4.5 million, respectively. During the three and six months ended June 30, 2014, no payments were made by Monetary to the Company to satisfy a guaranteed counterparty obligation. For the three and six months ended June 30, 2014, fees collected from counterparties and subsequently remitted to Monetary by the Company under the Monetary Guaranty were \$0.1 million and \$0.2 million, respectively, and are included in Referring broker fees in the condensed consolidated statements of operations. As of June 30, 2014 and December 31, 2013, the Company held cash collateral related to the Monetary Guaranty in the amount of \$6.2 million and \$8.4 million, respectively, which is included in Cash and cash equivalents, held for customers and Customer account liabilities in the condensed consolidated statements of financial condition.

Accounts payable and accrued expenses in the condensed consolidated statements of financial condition include a balance of \$1.2 million and \$0.2 million of advances from certain Lucid non-controlling members as of June 30, 2014 and December 31, 2013, respectively. Accounts payable and accrued expenses also include \$9.7 million and \$9.8 million related to the *Allocation of net income to Lucid members for services* provided as of June 30, 2014 and December 31, 2013, respectively (see Note 1).

Notes payable of \$7.5 million and \$9.8 million, included in the condensed consolidated statements of financial condition as of June 30, 2014 and December 31, 2013, respectively, represent the amount borrowed from the Lucid non-controlling members in connection with the Lucid acquisition. Interest expense related to the unsecured promissory notes was not material for the three and six months ended June 30, 2014 and 2013 (see Note 12).

Other liabilities in the condensed consolidated statements of financial condition include the Faros Follow-on Payment of nil and \$3.7 million as of June 30, 2014 and December 31, 2013, respectively (see Note 3).

FXCM Inc.**Notes to Unaudited Condensed Consolidated Financial Statements****Note 7. Related Party Transactions (continued)****Exchange Agreement**

The members of Holdings (other than the Corporation) entered into an exchange agreement under which they (or certain permitted transferees thereof) have the right (subject to the terms of the exchange agreement as described therein), to exchange their Holdings units for shares of the Corporation's Class A common stock on a one-for-one basis at fair value, subject to customary conversion rate adjustments for stock splits, stock dividends and reclassifications. During the six months ended June 30, 2014 and 2013, certain members of Holdings exchanged 1.0 million and 4.0 million, respectively, of their Holdings units, on a one-for-one basis, for shares of Class A common stock of the Corporation pursuant to the exchange agreement.

Payments under Tax Receivable Agreement

The Corporation entered into a tax receivable agreement with the members of Holdings (other than the Corporation) that will provide for the payment by the Corporation to Holdings' members (other than the Corporation) as defined therein. The aggregate payments due under the tax receivable agreement were \$152.0 million and \$150.3 million as of June 30, 2014 and December 31, 2013, respectively. During the six months ended June 30, 2014, payments of \$3.7 million were made pursuant to the tax receivable agreement.

Note 8. Stock-Based Compensation

The Company has a long term incentive plan (the "LTIP") that provides for the grant of stock options to purchase shares of the Corporation's Class A common stock to its employees ("Employee Stock Options") and the independent members of the board of directors ("Independent Directors Options") (collectively, the "Stock Options"). The Employee Stock Options have a contractual term of seven years and a four-year graded vesting schedule. The Independent Directors Options also have a seven-year contractual term but vest on the first anniversary after the grant date. Under the terms of the LTIP, the Company may issue new shares or treasury shares upon share option exercise.

During the six months ended June 30, 2014, the Company granted 83,490 Independent Director Options and 565,000 Employee Stock Options to purchase shares of the Corporation's Class A common stock to employees.

The following table summarizes the Company's stock options activity as of June 30, 2014 and changes for the six months then ended:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at January 1, 2014	7,607,800	\$ 13.48	4.3
Granted	648,490	\$ 16.28	
Exercised	(110,150)	\$ 13.81	
Forfeited or expired	(136,900)	\$ 12.36	
Outstanding as of June 30, 2014	8,009,240	\$ 13.72	4.1
Vested or expected to vest at June 30, 2014	7,948,446	\$ 13.72	4.1
Exercisable as of June 30, 2014	4,428,750	\$ 13.72	3.6

The weighted-average grant date fair value of options granted during the six months ended June 30, 2014 and 2013 was \$5.66 and \$4.74, respectively.

As of June 30, 2014 the weighted average period over which compensation cost on non-vested Stock Options is expected to be recognized is 2.1 years and the unrecognized expense is \$10.6 million. The fair value of the shares vested under the LTIP during the six months ended June 30, 2014 and 2013 was \$0.6 million and \$0.5 million, respectively. Stock-based compensation before income

taxes included in Compensation and benefits in the condensed consolidated statements of operations was \$2.5 million and \$4.9 million for the three and six months ended June 30, 2014, respectively, for the Employee

FXCM Inc.**Notes to Unaudited Condensed Consolidated Financial Statements****Note 8. Stock-Based Compensation (continued)**

Stock Options. Stock-based compensation before income taxes included in compensation and benefits in the condensed consolidated statements of operations was \$2.4 million and \$4.7 million for the three and six months ended June 30, 2013, respectively for the Employee Stock Options. Stock-based compensation before income taxes included in Compensation and benefits in the condensed consolidated statements of operations was not material for the three and six months ended June 30, 2014 and June 30, 2013 for the Independent Directors Options. The total compensation cost capitalized and included in Office, communication and computer equipment, net in the condensed consolidated statements of financial condition was \$0.6 million and \$1.4 million as of June 30, 2014 and December 31, 2013, respectively.

In arriving at stock-based compensation expense, the Company estimates the number of stock-based awards that will be forfeited due to employee turnover. The Company's forfeiture assumption is based primarily on its turn-over historical experience. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment will be made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the Company's financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment will be made to lower the estimated forfeiture rate, which will result in an increase to expense recognized in the Company's financial statements. The expense the Company recognizes in future periods will be affected by changes in the estimated forfeiture rate and may differ significantly from amounts recognized in the current period.

Cash proceeds received from the exercise of Stock Options were \$0.2 million and \$1.5 million for the three and six months ended June 30, 2014, respectively. Income tax benefit realized from the exercise of stock options were not material for the three and six months ended June 30, 2014, respectively. Cash proceeds received from the exercise of Stock Options were \$2.7 million for both the three and six months ended June 30, 2013. Income tax benefit realized from the exercise of stock options were not material for the three and six months ended June 30, 2013, respectively.

Valuation Assumptions

Calculating the fair value of Employee Stock Options requires estimates and significant judgment. The Company uses the Black-Scholes option pricing model to estimate the fair value of its employee stock options, consistent with the provisions of ASC 718, *Stock Compensation* ("ASC 718"). The fair value of the Stock Options grant is estimated on the date of the grant using the Black-Scholes option pricing model, and is not remeasured as a result of subsequent stock price fluctuations. Options granted to the Company's independent directors are considered options granted to employees under ASC 718 as defined therein.

Assumptions used in the Black Scholes valuation model were as follows:

	Independent Directors Options		Independent Directors Options	
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Expected term in years	—	—	4.00	4.00
Risk-free interest rate	—	—	1.19%	0.63%
Expected volatility	—	—	44.0%	54.0%
Dividend yield	—	—	1.43%	2.05%
Estimated fair value at grant date	—	—	\$ 5.39	\$ 4.26

FXCM Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Note 8. Stock-Based Compensation (continued)

	Employee Stock Options		Employee Stock Options	
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Expected term in years	—	—	4.75	4.75
Risk-free interest rate	—	—	1.58%	0.73%
Expected volatility	—	—	45.0%	50.0%
Dividend yield	—	—	1.48%	1.80%
Estimated fair value at grant date	—	—	\$ 5.70	\$ 5.08

Expected term for the Employee Stock Options and Independent Directors Options is based on the simplified method outlined in ASC 718. In accordance with ASC 718, options are considered to be exercised halfway between the average vesting date and the contractual term of each option grant. The simplified method is applicable for “plain-vanilla” stock options, as defined in ASC 718, only if the Company does not have sufficient historical data upon which to estimate an expected term. Given that the Corporation’s Class A common stock has been publicly traded for approximately three years, the Company believes that the simplified method is an applicable methodology to estimate the expected term of the options as of the grant date.

The risk free interest rates for the Employee Stock Options and Independent Directors Options are based on U.S. Treasury instruments whose terms are consistent with the expected lives of the Stock Options.

Expected volatility is based on a weighing of the historical and implied volatilities of the Company and for a set of public guideline companies deemed comparable to it. The guideline companies selected operate in a similar industry, pursue similar market opportunities, and are subject to similar risks of the Company. Changes in the subjective assumptions required in the valuation models may significantly affect the estimated value of the Company’s Stock Options, the related stock-based compensation expense and, consequently, its results of operations and comprehensive income.

The dividend yield is determined based on the Company’s expected dividend payouts.

The LTIP also provides for other stock based awards (“Other Equity Awards”) which may be granted by the Company’s Executive Compensation Committee (the “Committee”). Pursuant to the terms of the LTIP, the Committee may grant Other Equity Awards that are valued in whole or in part by reference to or that are otherwise based on the fair market value of the Corporation’s Class A common stock. The Company did not grant any Other Equity Awards during the three and six months ended June 30, 2014 or 2013.

Note 9. Stockholders’ Equity

The following table presents the changes in the corporation’s Class A common stock shares outstanding during the six months ended June 30, 2014, with amounts in thousands:

Class A Common Stock	As of June 30, 2014
Balance at January 1, 2014	44,665
Issued	164
Exchange of Holding Units into Class A common stock	1,017
Repurchased	(46)
Stock options exercised	110
Balance at June 30, 2014	45,910

As of June 30, 2014 and December 31, 2013 there were 38 and 41 shares, respectively, of Class B common stock issued and held by members of Holdings.

[Table of Contents](#)**FXCM Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****Note 10. Minimum Net Capital Requirements**

The tables below present the capital, as defined by the respective regulatory authority, the minimum capital requirement and the excess capital for the Company's regulated entities as of June 30, 2014 and December 31, 2013, with amounts in millions:

June 30, 2014									
	US	HK	UK LTD	Australia	ODL	FSL	FXCMJ	Lucid	Faros
Capital	\$ 48.8	\$ 29.5	\$ 103.4	\$ 5.1	\$ 27.9	\$ 44.1	\$ 37.5	\$ 43.3	\$ 0.1
Minimum capital requirement	29.1	13.9	39.2	0.9	5.7	6.9	6.3	3.1	—
Excess capital	<u>\$ 19.7</u>	<u>\$ 15.6</u>	<u>\$ 64.2</u>	<u>\$ 4.2</u>	<u>\$ 22.2</u>	<u>\$ 37.2</u>	<u>\$ 31.2</u>	<u>\$ 40.2</u>	<u>\$ 0.1</u>

December 31, 2013									
	US	HK	UK LTD	Australia	ODL	FSL	FXCMJ	Lucid	Faros
Capital	\$ 64.2	\$ 33.6	\$ 86.0	\$ 4.7	\$ 18.4	\$ 34.8	\$ 36.3	\$ 41.8	\$ 0.1
Minimum capital requirement	27.1	12.3	24.7	0.4	6.9	8.2	5.6	4.2	—
Excess capital	<u>\$ 37.1</u>	<u>\$ 21.3</u>	<u>\$ 61.3</u>	<u>\$ 4.3</u>	<u>\$ 11.5</u>	<u>\$ 26.6</u>	<u>\$ 30.7</u>	<u>\$ 37.6</u>	<u>\$ 0.1</u>

Note 11. Litigation

In the ordinary course of business, we may from time to time be involved in litigation and claims incidental to the conduct of our business, including intellectual property claims. In addition, our business is also subject to extensive regulation, which may result in regulatory proceedings against us. We have also been named in various arbitration and civil litigation cases brought by customers seeking damages for trading losses. During the quarter ended June 30, 2014, the Company recorded \$1.2 million in General and administrative expense in the condensed consolidated statements of operations to provide for various regulatory and customer actions. However, the arbitrations and litigations are presently in various stages of the judicial process and no judgment can be made regarding the ultimate outcome of the arbitrators' and/or courts' decisions.

In 2012, FXCMJ accrued \$2.6 million as an estimate to settle certain trading system matters with the JFSA. The Company settled this matter for \$2.3 million, which included an administrative penalty, during the first quarter of 2013.

In January 2014, the equity Receiver for a former client of US, Revelation Forex Fund ("Revelation"), its principal, Kevin G. White ("White"), and related entities RFF GP, LLC ("RFF"), KGM Capital Management, LLC ("KGM")(collectively "Fund"), filed suit against US, and certain unrelated defendants, in Texas state court. The suit alleges that US is liable under the Texas Securities Act, and the common law: (i) as a "control person;" and, (ii) as an aider and abettor of fraud and a breach of fiduciary obligations; and, (iii) for its negligence. The Receiver seeks joint and several liability for damages in excess of \$3.8 million, plus exemplary damages under Texas law, interest, and attorneys' fees. On February 7, 2014, US filed the equivalent of a motion to dismiss and to compel arbitration based on the mandatory forum selection clause and arbitration agreement in its Client Agreement with the Fund. It also filed an Answer with multiple affirmative defenses. The Trial Court heard argument on FXCM's motions to dismiss and entered an order denying them without findings of fact or conclusions of law. On March 18, FXCM filed a Notice of Appeal of the Trial Court's denial of its motion to compel arbitration. On April 16, FXCM filed a Petition for a Writ of Mandamus to appeal the denial of its motion to dismiss based on the forum selection clause and filed a brief on its appeal seeking to enforce its motion to compel arbitration. Both the Petition and Appeal are pending.

In February 2014, UK and FSL entered into a settlement with the FCA following an investigation into trade execution practices of UK and FSL in the period from 2006 to 2010, as well as a breach of notification obligations to the FCA. UK and FSL agreed to pay (a) restitution to affected clients up to \$9.9 million; and (b) a financial penalty of GBP 4.0 million (USD 6.6 million), together with any unclaimed restitution. As of June 30, 2014, the Company accrued \$1.8 million in additional restitution recorded in General and administrative expense in the condensed consolidated statements of operations.

FXCM Inc.**Notes to Unaudited Condensed Consolidated Financial Statements****Note 11. Litigation (continued)**

In April 2014, the Securities and Futures Commission ("SFC") initiated an investigation relating to HK's past trade execution practices concerning the handling of price improvements in our trading system prior to August 2010. HK continues to comply with information requests from SFC.

In July 2014, US settled a complaint brought by the National Futures Association ("NFA") relating to charges of doing business with an unregistered entity and for failing to submit certain trade data reports and was fined \$0.2 million. As of June 30, 2014, the Company accrued \$0.2 million related to this matter, recorded in General and administrative expense in the condensed consolidated statements of operations.

For the outstanding matters referenced above for which a loss is more than remote but less than likely, whether in excess of an accrued liability or where there is no accrued liability, we have estimated a range of possible loss. We believe the estimate of the aggregate range of possible loss in excess of accrued liabilities for such matters is between zero and \$4.7 million as of June 30, 2014.

In view of the inherent difficulty of predicting the outcome of litigation and claims, we cannot predict what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss related to each pending matter may be. Furthermore, the above-referenced matters represented in the estimated aggregate range of possible loss will change from time to time and actual results may vary significantly from the current estimate. An adverse outcome in one or more of these matters could be material to our results of operations or cash flows for any particular reporting period.

Note 12. Debt***Credit Agreement***

On December 19, 2011, Holdings entered into a credit agreement (the "Credit Agreement") with a syndicate of financial institutions. The Credit Agreement, which matures in 2016, is guaranteed by certain subsidiaries of Holdings and is secured by a pledge of all of the equity interests in certain of Holdings' domestic subsidiaries and 65% of the voting equity interests in certain of its foreign subsidiaries.

As of June 30, 2014, Holdings has commitments from lenders for \$150.0 million. As of June 30, 2014 and December 31, 2013, Holdings' outstanding balance under the Credit Agreement was \$25.0 million and nil, respectively.

Under the terms of the Credit Agreement, loans will bear interest at either a Eurodollar Rate or a Base rate (as defined below), at Holdings' election, plus an applicable margin, based on Holdings' leverage ratio. In addition, Holdings must pay an annual commitment fee based on Holdings' leverage ratio on the undrawn commitments under the Credit Agreement. The applicable margin and commitment fees are set forth in the table below:

Consolidated Leverage Ratio	Commitment Fee	Applicable Margin for Eurodollar Loans	Applicable Margin for Base Rate Loans
Less than 0.50 to 1.00	0.25%	1.75%	0.75%
Greater than or equal to 0.50 to 1.00 but less than 1.00 to 1.00	0.30%	2.00%	1.00%
Greater than or equal to 1.00 to 1.00 but less than 1.50 to 1.00	0.35%	2.25%	1.25%
Greater than or equal to 1.50 to 1.00, but less than 2.00 to 1.00	0.40%	2.50%	1.50%
Greater than or equal to 2.00 to 1.00	0.45%	2.75%	1.75%

FXCM Inc.**Notes to Unaudited Condensed Consolidated Financial Statements****Note 12. Debt (continued)**

The Base Rate means for any day a fluctuating rate per annum equal to the highest of (a) the Federal Funds Rate, as defined in the Credit Agreement, plus 0.5%, (b) the rate of interest in effect for such day as publicly announced from time to time by the administrative agent, Bank of America, N.A., as its prime rate, and (c) the Eurodollar Rate plus 1.00%. The Eurodollar Rate means the rate per annum equal to (i) the British Bankers Association LIBOR Rate, or (ii) if such rate is not available, the rate per annum determined by the administrative agent.

Interest expense related to borrowings under the Credit Agreement, including the amortization of debt financing costs, included in Interest on borrowings in the consolidated statements of operations was \$0.5 million and \$0.8 million for the three and six months ended June 30, 2014, respectively. Interest expense related to borrowings under the Credit Agreement, including the amortization of debt financing costs, included in Interest on borrowings in the consolidated statements of operations was \$0.5 million and \$1.1 million for the three and six months ended June 30, 2013, respectively.

Pursuant to covenants in the Credit Agreement, Holdings' is required to maintain: excess net capital amount of 125% of adjusted net capital required to be maintained as of the last day of any fiscal quarter for US and UK (see Note 10), Consolidated Interest Coverage Ratio, Consolidated Leverage Ratio and Consolidated Senior Leverage Ratio, each as defined in the Credit Agreement, of 4.00 to 1.00, 2.75 to 1.00 and 1.50 to 1.00, respectively, as of the last day of any fiscal quarter, Net Unhedged Exposure, as defined in the Credit Agreement, of less than 20% of total assets of Holdings and its subsidiaries, and Net Unhedged Non-FX Exposure, as defined in the Credit Agreement, of less than 10% of total assets of Holdings and its subsidiaries. In addition, the Credit Agreement contains certain customary covenants as well as certain customary events of default. As of June 30, 2014, Holdings was in compliance with all material covenants.

During the three and six months ended June 30, 2014, the weighted average dollar amount of borrowings related to the Credit Agreement were \$47.8 million and \$42.5 million, respectively, and the weighted average interest rates were 2.66% and 2.55%, respectively. During the three and six months ended June 30, 2013, the weighted average dollar amount of borrowings related to the Credit Agreement were \$57.6 million and \$70.4 million, respectively, and the weighted average interest rates were 2.36% and 2.43%, respectively.

Senior Convertible Notes due 2018

In June 2013, the Corporation issued \$172.5 million principal amount of 2.25% Convertible Notes maturing on June 15, 2018 and received net proceeds of \$166.5 million, after deducting the initial purchasers' discount and offering expenses. The Convertible Notes pay interest semi-annually on June 15 and December 15 at a rate of 2.25% per year, commencing December 15, 2013. The indenture governing the Convertible Notes does not prohibit the Company from incurring additional senior debt or secured debt, nor does it prohibit any of its subsidiaries from incurring additional liabilities.

The Convertible Notes will be convertible at an initial conversion rate of 53.2992 shares of the Corporation's Class A common stock per \$1,000 principal amount of the Convertible Notes, which is equivalent to an initial conversion price of approximately \$18.76. In addition, following certain corporate transactions that occur prior to the maturity date, the Corporation will, in certain circumstances, increase the conversion rate for a holder that elects to convert its Convertible Notes in connection with such corporate transaction. Upon conversion, the Corporation will deliver cash up to the principal amount. With respect to any conversion value in excess of the principal amount, the Corporation will deliver shares of its Class A common stock (unless it elects to deliver cash in lieu of all or a portion of such shares).

Holders may convert their notes at their option prior to the close of business on the business day immediately preceding March 15, 2018, only under the following circumstances:

- during any fiscal quarter commencing after the fiscal quarter ending on September 30, 2013 (and only during such fiscal quarter), if the last reported sale price of the Corporation's Class A common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day;
- during the five business day period immediately after any five consecutive trading day period (the "measurement period") in which the "trading price" (as defined in the offering circular) per \$1,000 principal amount of notes for each

FXCM Inc.**Notes to Unaudited Condensed Consolidated Financial Statements****Note 12. Debt (continued)**

trading day of such measurement period was less than 98% of the product of the last reported sale price of the Corporation's Class A common stock and the applicable conversion rate on such trading day;

- upon the occurrence of specified corporate events; or
- on or after March 15, 2018 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time.

In addition, if the Company undergoes a fundamental change (as defined in the offering circular), holders may, subject to certain conditions, require the Corporation to repurchase their notes for cash at a price equal to 100% of the principal amount of the notes to be purchased, plus accrued and unpaid interest.

Convertible Note Hedges

In connection with the offering of the Convertible Notes, the Company entered into privately negotiated convertible note hedge transactions with certain counterparties (the "Convertible Note Hedge Transaction"). The Convertible Note Hedge Transactions will cover, subject to customary anti-dilution adjustments, the number of shares of the Corporation's Class A common stock that will initially underlie the Convertible Notes. Concurrently with entering into the Convertible Note Hedge Transaction, the Company also entered into a separate, privately negotiated warrant transaction (the "Warrant Transaction") with the same counterparties, whereby the Company sold to the counterparties warrants to purchase, subject to customary anti-dilution adjustments, up to the same number of shares of the Corporation's Class A common stock as in the Convertible Note Hedge Transaction. The strike price of the Warrant Transaction will initially be \$21.24 per share of the Corporation's Class A common stock. Subject to certain conditions, the Company may settle the warrants in cash or on a net-share basis.

The Convertible Note Hedge Transaction and the Warrant Transaction have the effect of increasing the effective conversion price of the Convertible Notes to \$21.24 per share. The cost of the Convertible Note Hedge Transaction and the proceeds from the Warrant Transaction was \$29.1 million and \$18.6 million, respectively. In accordance with Accounting Standards Codification ("ASC") 815, *Derivatives and Hedging* ("ASC 815"), the Company recorded the cost of the Convertible Note Hedge Transaction and the proceeds from the Warrant Transaction to additional-paid-in-capital in the stockholders' equity in the condensed consolidated statements of financial condition and the recorded values will not be adjusted for subsequent changes in their respective fair values.

The Convertible Note Hedge Transaction and the Warrant Transaction are separate transactions, in each case, entered into by the Company with certain counterparties, and are not part of the terms of the Convertible Notes and will not affect any holder's right under the Convertible Notes. Holders of the Convertible Notes will not have any rights with respect to the Convertible Hedge Transaction or the Warrant Transaction.

Under ASC 470, *Debt* ("ASC 470"), an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Convertible Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470 on the accounting for the Convertible Notes is that the fair value of the equity component is included in the additional paid-in capital section of stockholders' equity in the Company's condensed consolidated statements of financial condition and the principal amount of the Convertible Notes is reduced by original issue discount to reflect the Convertible Notes fair value at issuance. At issuance, the equity component of the Convertible Notes was valued at \$29.1 million and the Convertible Notes were valued at \$144.1 million consisting of \$172.5 million of principal net of original issuance discount of \$29.1 million. The original issue discount will be amortized over the life of the Convertible Notes using the effective interest rate of 6.20%.

The balances of the liability and equity components as of June 30, 2014, were as follows, with amounts in thousands:

	June 30, 2014
Liability component - principal	\$ 172,500
Deferred bond discount	(23,600)
Liability component - net carrying value	\$ 148,900
Equity component	\$ 29,100

[Table of Contents](#)**FXCM Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****Note 12. Debt (continued)**

Interest expense related to the Convertible Notes, included in Interest on borrowings in the condensed consolidated statements of operations was as follows, with amounts in thousands:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest expense - stated coupon rate	\$ 970	\$ 302	\$ 1,941	\$ 302
Interest expense - amortization of deferred bond discount	1,302	390	2,597	390
Total interest expense - convertible note	<u>\$ 2,272</u>	<u>\$ 692</u>	<u>\$ 4,538</u>	<u>\$ 692</u>

The Company incurred \$6.0 million of Convertible Notes issuance cost. Amortization of Convertible Notes issuance costs included in Interest on borrowings in the condensed consolidated statements of operations was \$0.3 million and \$0.6 million for the three and six months ended June 30, 2014, respectively. Amortization of Convertible Notes issuance costs included in Interest on borrowings in the condensed consolidated statements of operations was not material for the three and six months ended June 30, 2013. Unamortized Convertible Notes issuance cost was \$4.7 million and \$5.3 million at June 30, 2014 and December 31, 2013, respectively, and is included in Other assets in the condensed consolidated statements of financial position.

Notes Payable

In connection with its Lucid acquisition, the Company issued to the Lucid sellers 3.5% unsecured promissory notes in the amounts of \$71.4 million and \$15.8 million maturing on December 21, 2012. On December 21, 2012, the Company repaid \$64.0 million of these notes and issued a series of 2.25%, \$22.9 million unsecured promissory notes for the balance. The notes were pre-paid on June 6, 2013 with a portion of the proceeds received from the Convertible Notes issued on June 3, 2013. In the second quarter of 2013, the Lucid purchase price was increased by \$15.3 million due to the final determination of tax balances at the acquisition date adjusted during the measurement period. The Company issued six-month 2.25% unsecured promissory notes to the Lucid sellers for the purchase price increase which matured on December 21, 2013. In satisfaction of the matured notes, the Company repaid \$5.5 million and issued a series of 2.25% unsecured promissory notes to the Lucid sellers for the balance of \$9.8 million which matured on June 6, 2014. In satisfaction of the matured notes, the Company repaid \$2.3 million and issued a series of 2.25% unsecured promissory notes for the balance of \$7.5 million which matures on December 6, 2014.

Note 13. Commitments and Contingencies

The Company holds an interest in an inactive entity that formerly provided online FX educational services ("Online Courses"). Online Courses meets the definition of a VIE under ASC 810 and the Company is considered the primary beneficiary. The members who own the remaining interest in Online Courses have put options to sell their interest to the Company upon a change in control of Holdings. A change in control occurs when the number of Holdings units held by unit holders as of the date of the Online Courses operating agreement, November 17, 2008, cease to make up at least 50% of the voting or vested economic interest securities of Holdings. The change in control occurred during the quarter ended September 30, 2013. Under U.S. GAAP, the value of the put options is recognized upon both the change in control and the exercise of the put options.

On April 2, 2014, thirty-seven percent of the put options were exercised and Holdings remitted a payment in the amount of \$1.3 million to the Online Courses members on April 3, 2014. Based on the status (inactive and no assets) of Online Courses, the put option payment resulted in a \$1.3 million charge to earnings and is included in General and administrative expense in the condensed consolidated statements of operations for the three and six months ended June 30, 2014. Assuming a full exercise of the remaining put options at June 30, 2014, the Company would have been obligated to purchase the remaining

FXCM Inc.**Notes to Unaudited Condensed Consolidated Financial Statements****Note 13. Commitments and Contingencies (continued)**

interest for approximately \$2.3 million. Pursuant to the terms of the Online Courses operating agreement, the put options payment accretes at a rate of 15% per annum. A put option payment on the remaining options would most likely result in an additional charge to earnings.

Note 14. Exchange Memberships

The Company's exchange memberships, which represent ownership interests and shares owned in the Chicago Mercantile and the Intercontinental exchanges and provide the Company with the right to conduct business on the exchanges, are recorded at cost or, if an other than temporary impairment in value has occurred, at a value that reflects management's estimate of the impairment. There were no exchange membership impairments as of June 30, 2014. At June 30, 2014, ownership interests and shares owned with a cost of \$2.8 million and \$3.7 million, respectively, are included in Other assets in the condensed consolidated statement of financial condition. There were no exchange memberships held at December 31, 2013.

Note 15. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement establishes a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. These three levels of fair value hierarchy are defined as follows:

Level I: Quoted prices in active markets for identical assets or liabilities, accessible by the Company at the measurement date.

Level II: Quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active, or other observable inputs other than quoted prices.

Level III: Unobservable inputs for assets or liabilities.

When Level I inputs are available, those inputs are selected for determination of fair value. To value derivatives that are characterized as Level II and III, the Company uses observable inputs for similar assets and liabilities that are available from pricing services or broker quotes. These observable inputs may be supplemented with other methods, including internal models that result in the most representative prices for assets and liabilities with similar characteristics. Multiple inputs may be used to measure fair value, however, the level of fair value for each derivative and financial asset or liability is based on the highest priority level of input within this fair value hierarchy.

[Table of Contents](#)

FXCM Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Note 15. Fair Value Measurements (continued)

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis and the related hierarchy levels, with amounts in thousands:

Fair Value Measurements on a Recurring Basis					
As of June 30, 2014					
	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Counterparty and Cash Collateral Netting	Total
Financial Assets:					
Cash and cash equivalents	\$ 348,763	\$ —	\$ —	\$ —	\$ 348,763
Cash and cash equivalents, held for customers	1,312,270	—	—	—	1,312,270
Trading securities	614	—	—	—	614
Due from brokers:					
Exchange traded options	5,543	—	—	—	5,543
Futures contracts	61,565	—	—	—	61,565
Over the counter (OTC) options	—	148	—	—	148
Netting	—	—	—	(65,797)	(65,797)
Total due from brokers	67,108	148	—	(65,797)	1,459
Total assets	<u>\$ 1,728,755</u>	<u>\$ 148</u>	<u>\$ —</u>	<u>\$ (65,797)</u>	<u>\$ 1,663,106</u>
Financial Liabilities:					
Customer account liabilities	\$ 1,312,270	\$ —	\$ —	\$ —	\$ 1,312,270
Due to brokers:					
Exchange traded options	2,557	—	—	—	2,557
Futures contracts	64,318	—	—	—	64,318
Over the counter (OTC) options	—	506	—	—	506
Netting	—	—	—	(66,839)	(66,839)
Total due to brokers	66,875	506	—	(66,839)	542
Securities sold, not yet purchased	3,435	—	—	—	3,435
Total liabilities	<u>\$ 1,382,580</u>	<u>\$ 506</u>	<u>\$ —</u>	<u>\$ (66,839)</u>	<u>\$ 1,316,247</u>

[Table of Contents](#)

FXCM Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Note 15. Fair Value Measurements (continued)

Fair Value Measurements on a Recurring Basis

As of December 31, 2013

	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Counterparty and Cash Collateral Netting	Total
Financial Assets:					
Cash and cash equivalents	\$ 365,245	\$ —	\$ —	\$ —	\$ 365,245
Cash and cash equivalents, held for customers	1,190,880	—	—	—	1,190,880
Due from brokers - futures contracts	84	—	—	(84)	—
Total assets	<u>\$ 1,556,209</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (84)</u>	<u>\$ 1,556,125</u>
Financial Liabilities:					
Customer account liabilities	\$ 1,190,880	\$ —	\$ —	\$ —	\$ 1,190,880
Due to brokers - open futures contracts	2,404	—	—	(84)	2,320
Follow-on Payment	—	—	3,672	—	3,672
Total liabilities	<u>\$ 1,193,284</u>	<u>\$ —</u>	<u>\$ 3,672</u>	<u>\$ (84)</u>	<u>\$ 1,196,872</u>

Cash and Cash Equivalents and Cash and Cash Equivalents, held for customers

Cash and cash equivalents and cash and cash equivalents, held for customers are deemed to be Level I.

Trading Securities

Equity securities that the Company purchased with the intent to sell in the near-term are classified as trading securities. These trading securities are reported at their fair value based on the quoted market prices of the securities in active markets and are deemed to be Level I. Changes in fair value of equity securities from trading activity are recorded in Institutional trading revenue in the condensed consolidated statements of operations.

Due from/to Brokers

Exchange traded options and open futures contracts, included in Due from and Due to brokers in the condensed consolidated statements of financial condition, are classified as Level I financial assets and liabilities, respectively, as their fair values are based on exchange prices. Over the counter (OTC) options, included in Due from and due to brokers in the condensed consolidated statements of financial condition, are valued using market price quotations (where observable) obtained from independent brokers and are classified as Level II financial liabilities.

Securities Sold, Not Yet Purchased

Securities sold, not yet purchased, represent the Company's obligations to deliver the specified security at the contracted price at a future point in time, and thereby create a liability to repurchase the securities in the market at the prevailing prices. The liability for such securities sold short, included in the condensed consolidated statement of financial condition, is marked to market based on the current fair value of the underlying security at the reporting date and are classified as Level I financial liabilities as they are based on exchange prices. Changes in fair value of securities sold, not yet purchased are recorded as unrealized gains or losses in Institutional trading revenue in the condensed consolidated statements of operations. These transactions may involve market risk in excess of the amount currently reflected in the condensed consolidated statements of financial condition.

[Table of Contents](#)

FXCM Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Note 15. Fair Value Measurements (continued)

The following table presents the carrying value, fair value and fair value hierarchy category of certain financial instruments that are not measured at fair value in the consolidated statements of financial condition, with amounts in thousands:

	As of June 30, 2014		Fair Value Measurements using:		
	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Financial Assets:					
Due from brokers- unsettled spot FX	\$ 479	\$ 479	\$ —	\$ 479	\$ —
Due from brokers- unsettled common stock	3,730	3,730	—	3,730	—
Due from brokers - excess cash collateral	19,558	19,558	—	19,558	—
Equity method investments	10,782	13,733	—	—	13,733
Notes receivable	9,608	9,608	—	—	9,608
Exchange memberships	6,429	6,295	—	6,295	—
Total assets	<u>\$ 50,586</u>	<u>\$ 53,403</u>	<u>\$ —</u>	<u>\$ 30,062</u>	<u>\$ 23,341</u>
Financial Liabilities:					
Due to brokers- unsettled spot FX	\$ 16,025	\$ 16,025	\$ —	\$ 16,025	\$ —
Credit agreement	25,000	25,000	—	25,000	—
Notes payable	7,460	7,460	—	—	7,460
Senior convertible notes	148,900	151,795	—	151,795	—
Total liabilities	<u>\$ 197,385</u>	<u>\$ 200,280</u>	<u>\$ —</u>	<u>\$ 192,820</u>	<u>\$ 7,460</u>
As of December 31, 2013					
	As of December 31, 2013		Fair Value Measurements using:		
	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Financial Assets:					
Due from brokers- unsettled spot FX	\$ 5,450	\$ 5,450	\$ —	\$ 5,450	\$ —
Equity method investments	9,793	13,504	—	—	13,504
Notes receivable	11,942	11,942	—	—	11,942
Total assets	<u>\$ 27,185</u>	<u>\$ 30,896</u>	<u>\$ —</u>	<u>\$ 5,450</u>	<u>\$ 25,446</u>
Financial Liabilities:					
Due to brokers- unsettled spot FX	\$ 6,332	\$ 6,332	—	\$ 6,332	\$ —
Notes payable	9,800	9,800	—	—	9,800
Senior convertible notes	146,303	149,418	—	149,418	—
Total liabilities	<u>\$ 162,435</u>	<u>\$ 165,550</u>	<u>\$ —</u>	<u>\$ 155,750</u>	<u>\$ 9,800</u>

FXCM Inc.**Notes to Unaudited Condensed Consolidated Financial Statements****Note 15. Fair Value Measurements (continued)*****Due from/to Brokers - Unsettled Spot FX***

Unsettled spot FX, included in Due from brokers and Due to brokers in the condensed consolidated statements of financial condition, are classified as Level II financial assets and liabilities, respectively, and are carried at contracted amounts which approximate fair value based on market price quotations (where observable) obtained from independent brokers.

Due from Brokers - Unsettled Common Stock

The receivable for exchange membership shares sold short, included in Due from brokers in the condensed consolidated statements of financial condition, is classified as a Level II financial asset and is carried at the contracted amount which approximates fair value based on quoted prices.

Due from Brokers - Excess Cash Collateral

Excess cash collateral, included in Due from brokers in the condensed consolidated statements of financial condition, is classified as Level II financial assets.

Equity Method Investments

Equity Method Investments, included in Other assets in the condensed consolidated statements of financial condition, are classified as Level III financial assets and are carried at cost. The fair value of these investments is based on comparable market multiples and other valuation methods.

Notes Receivable

Notes receivable are carried at contracted amounts which approximate fair value.

Exchange Memberships

Exchange memberships, which include ownership interests and shares owned, are included in Other assets in the condensed consolidated statements of financial condition. Exchange memberships are carried at cost and are classified as Level II financial assets. The fair value is based on quoted prices or recent sales.

Notes Payable

Notes payable, included in the condensed consolidated statements of financial condition, are carried at contracted amounts, which approximate fair value based on the relatively short amount of time until maturity.

Credit Agreement

Balances due under the Credit Agreement are carried at contracted amounts, which approximate fair value based on the short term nature of the borrowing and the variable interest rate.

Senior Convertible Notes

Senior convertible notes are carried at contractual amounts. The fair value of the Senior convertible notes are based on similar recently executed transactions and market price quotations (where observable) obtained from independent brokers.

The following tables reconcile the ending balances of liabilities classified as Level III and identify the total (gains) and losses the Company recognized during the six months ended June 30, 2014 and twelve months ended December 31, 2013 on such liabilities that were included in the condensed consolidated statements of financial condition as of June 30, 2014 and December 31, 2013, respectively with amounts in thousands:

FXCM Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Note 15. Fair Value Measurements (continued)

As of June 30, 2014				
	Beginning Balance	Additions	Net Unrealized / Realized (Gains) Losses	Total
Follow-on Payment	\$ 3,672	\$ —	\$ (3,672)	\$ —
Total Level III liabilities	\$ 3,672	\$ —	\$ (3,672)	\$ —

As of December 31, 2013				
	Beginning Balance	Additions	Net Unrealized / Realized (Gains) Losses	Total
Follow-on Payment	\$ —	\$ 10,631	\$ (6,959)	\$ 3,672
Total Level III liabilities	\$ —	\$ 10,631	\$ (6,959)	\$ 3,672

The Follow-on Payment related to the Faros acquisition was valued using significant unobservable inputs including a multiple of Faros' 2014 EBITDA. The net unrealized/realized (gains)/losses are included in Other income in the condensed consolidated statements of operations.

The Company did not have any transfers in or out of Level I, II and III during the six months ended June 30, 2014.

Note 16. Derivative Financial Instruments

Derivative financial instruments are accounted for in accordance with ASC 815 and are included in Due from brokers and Due to brokers in the condensed consolidated statements of financial condition. The Company recognizes all derivative financial instruments in the condensed consolidated statements of financial condition as either assets or liabilities at fair value. The Company has master netting agreements with its respective counterparties under which derivative financial instruments are presented on a net-by-counterparty basis in accordance with Topic 210, *Balance Sheet* ("ASC 210") and ASC 815. The Company enters into futures contracts to economically hedge the open customer contracts on its CFD business. Futures contracts are exchanged traded contracts to either purchase or sell a specific asset at a specified future date for a specified price. Gains or losses on futures contracts related to the Company's CFD business are included in Retail trading revenue in the condensed consolidated statements of operations. The Company also engages in hedge trading in its electronic market making and institutional foreign exchange spot and futures markets. Gains or losses on hedge trading in the Company's electronic market making and institutional foreign exchange spot and futures markets are included in Institutional trading revenue in the condensed consolidated statements of operations.

Through its subsidiaries Lucid and V3 (see Note 3), the Company enters into options, futures, forward foreign currency contracts and commodity contracts. Options grant the purchaser, for the payment of a premium, the right to either purchase from or sell to the writer a specified instrument under agreed terms. A forward contract is a commitment to purchase or sell an asset at a future date at a negotiated rate. The Company's derivative transactions held for trading purposes are recorded in Due from/to brokers in the condensed consolidated statements of financial condition. Gains or losses on options, futures and forward contracts held for trading purposes, are included in Institutional trading revenue in the condensed consolidated statements of operations.

The Company is exposed to risks relating to its derivatives trading positions from the potential inability of counterparties to perform under the terms of the contracts (credit risk) and from changes in the value of the underlying financial instruments (market risk). The Company is subject to credit risk to the extent that any counterparty with which it conducts business with is unable to fulfill its contractual obligations. The Company manages its trading positions by monitoring its positions with and the credit quality of the financial institutions that are party to its derivative trading transactions. Additionally, the Company's netting agreements provide the Company with the right, in the event of a default of the counterparty (such as bankruptcy or a failure to perform), to net a counterparty's rights and obligations under the agreement and to liquidate and set off collateral against any net amount owed by the counterparty.

[Table of Contents](#)

FXCM Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Note 16. Derivative Financial Instruments (continued)

The following tables present the gross and net fair values of the Company derivative transactions and the related offsetting amount permitted under ASC 210 and ASC 815, as of June 30, 2014 and December 31, 2013. Derivative assets and liabilities are net of counterparty and collateral offsets. Collateral offsets include cash margin amounts posted with brokers. Under ASC 210, gross positive fair values are offset against gross negative fair values by counterparty pursuant to enforceable master netting agreements, with amounts in thousands:

	Derivatives Assets Included in Due from/to Brokers	
	June 30, 2014	
	Fair Value	Notional
Exchange traded options	\$ 5,543	\$ 148,224
Futures contracts	61,565	4,107,841
Over the counter (OTC) options	148	148
Total derivative assets	\$ 67,256	\$ 4,256,213
Netting agreements	(65,797)	
Total derivative assets	\$ 1,459	

	Derivative Liabilities Included in Due from/to Brokers	
	June 30, 2014	
	Fair Value	Notional
Exchange traded options	\$ 2,557	\$ 4,539
Futures contracts	64,318	22,402,405
Over the counter (OTC) options	506	506
Total derivative liabilities	\$ 67,381	\$ 22,407,450
Netting agreements and cash collateral netting	(66,839)	
Total derivative liabilities	\$ 542	
Total	\$ 917	\$ 26,663,663

	Derivatives Assets Included in Due from/to Brokers	
	December 31, 2013	
	Fair Value	Notional
Futures contracts	\$ 84	\$ 19,475
Netting agreements	(84)	
Total Assets	\$ —	

[Table of Contents](#)

FXCM Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Note 16. Derivative Financial Instruments (continued)

	Derivative Liabilities Included in Due from/to Brokers	
	December 31, 2013	
	Fair Value	Notional
Futures contracts	\$ 2,404	\$ 140,429
Netting agreements	(84)	
Total Liabilities	<u>\$ 2,320</u>	
Total	<u>\$ (2,320)</u>	<u>\$ 159,904</u>

The following table presents the gains (losses) on derivative instruments included in Retail and Institutional trading revenue in the condensed consolidated statements of operations for the three and six months ended June 30, 2014 and 2013, with amounts in thousands:

	Gains (Losses)					
	Three Months ended June 30, 2014			Six Months ended June 30, 2014		
	Retail	Institutional	Total	Retail	Institutional	Total
Exchange traded options	\$ —	\$ 21,569	\$ 21,569	\$ —	\$ 19,917	\$ 19,917
Futures contracts	16,651	(16,126)	525	20,804	(7,051)	13,753
Over the counter (OTC) options	—	526	526	—	383	383
Total	<u>\$ 16,651</u>	<u>\$ 5,969</u>	<u>\$ 22,620</u>	<u>\$ 20,804</u>	<u>\$ 13,249</u>	<u>\$ 34,053</u>

	Gains (Losses)					
	Three Months ended June 30, 2013			Six Months ended June 30, 2013		
	Retail	Institutional	Total	Retail	Institutional	Total
Exchange traded options	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Futures contracts	(4,339)	6,809	2,470	(9,766)	11,163	1,397
Over the counter (OTC) options	—	—	—	—	—	—
Total	<u>\$ (4,339)</u>	<u>\$ 6,809</u>	<u>\$ 2,470</u>	<u>\$ (9,766)</u>	<u>\$ 11,163</u>	<u>\$ 1,397</u>

FXCM Inc.**Notes to Unaudited Condensed Consolidated Financial Statements****Note 17. Income Taxes**

Holdings operates in the U.S. as a limited liability company that is treated as a partnership for U.S. federal, state, and local income tax purposes. As a result, Holdings income from its operations is not subject to U.S. federal income tax because the income is attributable to its members. Accordingly, the Company's U.S. tax provision is solely based on the portion of Holdings' income attributable to the Corporation and excludes the income attributable to other members of Holdings whose income is included in Net income attributable to non-controlling interest in FXCM Holdings, LLC in the condensed consolidated statements of operations.

In addition to U.S. federal and state income taxes, the Company is subject to Unincorporated Business Tax which is attributable to Holding's operations apportioned to New York City. The Company's foreign subsidiaries are also subject to taxes in their local jurisdiction.

The Company's effective rate was 8.4% and (10.5)% for the three and six months ended June 30, 2014, respectively. The Company's effective rate was 27.0% and 27.3% for the three and six months ended June 30, 2013, respectively. The negative tax rate for the six months ended June 30, 2014 reflects recording a tax provision in spite of a book loss. The decrease in the effective tax rate for the three and six months ended June 30, 2014 compared to the same period in 2013 was due predominately to recording unfavorable book tax differences for valuation allowances on foreign tax credits carryforwards against the benefit from a loss which reduces the effective rate compared to recording the effect of the unfavorable adjustments in the prior year on income which increases the effective rate. A shift in jurisdictional income also affected the rate of tax along with an increase in the Corporation's ownership of Holdings. The increase in the Corporation's ownership in Holdings is due to members of Holdings exchanging their units for the Corporation's Class A common stock and stock awards. The effective tax rate will continue to increase as additional exchanges occur.

During the six months ended June 30, 2014, there were no material changes to the uncertain tax positions.

The Company is no longer subject to tax examinations by taxing authorities for tax years prior to 2009 and, during the first quarter of 2014, it concluded the audit of the Company's 2011 Federal Tax return with no adjustment to the tax owed. The Company presently has no additional open tax examinations.

Note 18. Segments

ASC 280, *Segments Reporting*, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's operations relate to FX trading and related services and operate in two segments — retail and institutional, with different target markets and are covered by a separate sales force, customer support and trading platforms. The Company's segments are organized around three geographic areas. These geographic areas are the United States, Asia and Europe and are based on the location of its customers' accounts.

Retail Trading

The Company operates its retail business whereby it acts as an agent between retail customers and a collection of large global banks and financial institutions by making foreign currency markets for customers trading in foreign exchange spot markets through its Retail Trading business segment. The Retail Trading business segment includes the Company's white label relationships, contract for differences, payments for order flow and rollovers. In addition, the Retail Trading business segment includes offerings to some of the Company's smaller retail clients to trade with a dealing desk, or principal model.

Institutional Trading

Institutional Trading facilitates spot foreign currency trades on behalf of institutional customers, market making and electronic trading in the institutional foreign exchange spot and futures markets. The facilitation of spot foreign currency trades allows customers to obtain the best execution price from external banks and financial institutions.

Information concerning the Company's operations by reportable segment is as follows, with amounts in thousands:

[Table of Contents](#)

FXCM Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Note 18. Segments (continued)

	Three Months Ended June 30, 2014			
	Retail Trading	Institutional Trading	Corporate	Total
Total revenues	\$ 76,047	\$ 21,880	\$ —	\$ 97,927
Total expenses	52,032	25,561	29,012	106,605
Equity investment, loss	—	143	81	224
Income (loss) before income taxes	\$ 24,015	\$ (3,824)	\$ (29,093)	\$ (8,902)

	Three Months Ended June 30, 2013			
	Retail Trading	Institutional Trading	Corporate	Total
Total revenues	\$ 108,341	\$ 31,792	\$ —	\$ 140,133
Total expenses	55,690	35,439	24,961	116,090
Equity investments, (gain) loss	—	445	(48)	397
Income (loss) before income taxes	\$ 52,651	\$ (4,092)	\$ (24,913)	\$ 23,646

	Six Months Ended June 30, 2014			
	Retail Trading	Institutional Trading	Corporate	Total
Total revenues	\$ 161,005	\$ 51,930	\$ —	\$ 212,935
Total expenses	103,838	53,190	60,179	217,207
Equity investments, loss	—	367	167	534
Income (loss) before income taxes	\$ 57,167	\$ (1,627)	\$ (60,346)	\$ (4,806)

	Six Months Ended June 30, 2013			
	Retail Trading	Institutional Trading	Corporate	Total
Total revenues	\$ 203,649	\$ 59,348	\$ —	\$ 262,997
Total expenses	109,432	52,915	47,532	209,879
Equity investments, loss	—	445	100	545
Income (loss) before income taxes	\$ 94,217	\$ 5,988	\$ (47,632)	\$ 52,573

Assets	As of June 30, 2014	As of December 31, 2013
Retail	\$ 1,718,234	\$ 1,622,829
Institutional	465,336	417,492
Corporate	192,380	183,626
Total assets	\$ 2,375,950	\$ 2,223,947

[Table of Contents](#)

FXCM Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Note 19. Subsequent Events

The Company has evaluated our subsequent events through the filing date of this Form 10-Q.

On August 6, 2014, the Corporation declared a quarterly dividend of \$0.06 per share on its outstanding Class A common stock. The dividend is payable on October 1, 2014 to Class A stockholders of record at the close of business on September 5, 2014.

On August 7, 2014, the Company entered into a Seventh Amendment to the Credit Agreement by and among FXCM Holdings, LLC, Bank of America, N.A., as Administrative Agent and certain lenders from time to time parties thereto. See “Liquidity and Capital Resources” in Management's Discussion and Analysis for more information.

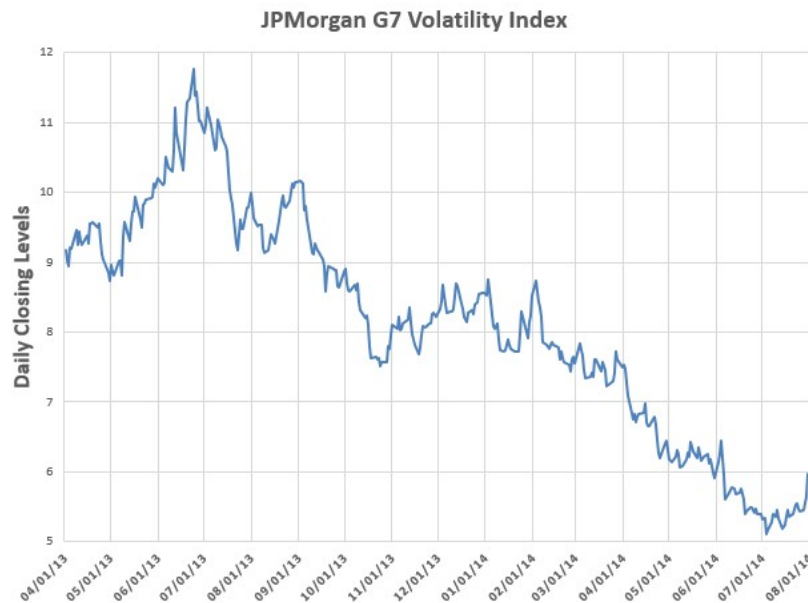
[Table of Contents](#)**FXCM Inc.****Item 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements of FXCM Inc., and the related notes included elsewhere in this Quarterly Report and our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the Securities and Exchange Commission on March 17, 2014 (“Annual Report”), including the audited consolidated financial statements and related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained therein. The historical consolidated financial data discussed below reflects the historical results and financial position of FXCM Inc. In addition, this discussion and analysis contains forward looking statements and involves numerous risks and uncertainties, including those described under “Cautionary Note Regarding Forward-Looking Statement” and “Risk Factors.” Actual results may differ materially from those contained in any forward looking statements.

Unless the context suggests otherwise, references to “FXCM”, the “Company”, “we”, “us”, and “our” refer to FXCM Inc. and its consolidated subsidiaries. References to “Lucid” collectively refers to Lucid Markets Trading Limited and its subsidiary, Lucid Markets LLP. References to “Faros” refers to Faros Trading LLC and references to “V3” refers to V3 Markets, LLC.

OVERVIEW**Industry Environment**

Economic Environment - As highlighted in the daily JPMorgan Global FX Volatility chart below volatility has been at historical lows, levels not seen since the second quarter of 2007. This reduced volatility suppressed trading volumes in both retail and institutional markets, which in turn has impacted our financial performance. In general, in periods of elevated volatility customer trading volumes tend to increase, however, significant swings in market volatility can also result in increased customer trading losses, higher turnover and reduced trading volume. It is difficult to predict volatility and its effects in the FX market.



Competitive Environment — The retail FX trading market is highly competitive. Our competitors in the retail market can be grouped into several broad categories based on size, business model, product offerings, target customers and geographic scope of operations. These include United States (“U.S.”) based retail FX brokers, international multi-product trading firms, other online trading firms, and international banks and other financial institutions with significant FX operations. We expect competition to continue to remain strong for the foreseeable future.

[Table of Contents](#)

Regulatory Environment — Our business and industry are highly regulated. Our operating subsidiaries are regulated in a number of jurisdictions, including the U.S., the United Kingdom (“U.K.”) (where regulatory passport rights have been exercised to operate in a number of European Economic Area jurisdictions), Hong Kong, Australia and Japan.

Business Strategy

Since our inception, we have pursued a strategy to grow the business to reap the benefits of scale and the protection of diversified sources of revenue.

- Increase our Scale

Goal: Operating efficiency, sustainable results, resilience across good/bad markets

- Organic growth supplemented by selective acquisitions
- Take advantage of market turbulence to increase share
- Expand distribution through white labels and similar relationships

- Build a Diversified Revenue Base

Goal: Exploit global opportunities, protection against downturns in a geography or segment

- Establish/expand presence in best markets globally
- Offset declines in one jurisdiction with growth from others
- Increase institutional presence to balance our strength in retail

Executive Summary

We continued to experience historically muted currency volatility in the second quarter of 2014 with the daily JPMorgan Global FX Volatility Index average falling to 6.23 for the quarter. The last time the index reached this level was in 2007. The muted currency volatility weighed heavily on our results for the first six months of 2014 as both retail and institutional traders have scaled back their trading activity. This environment has also impacted M&A transactions as potential targets have either not adjusted their pricing to reflect the current trading environment or have decided to remain on the sidelines until the environment improves. Ultimately, we believe that these market conditions combined with regulatory changes will fuel consolidation. Despite the difficult trading conditions, we continue to gain market share and had another strong quarter of growth in customer equity, in part reflecting our strong brand and competitive position. Since year-end 2013, we have grown customer equity by \$121 million or 10% and believe we are well positioned for when market conditions improve.

Primary Sources of Revenues

Most of our revenues are derived from fees charged as a markup or commission when our retail or institutional customers execute trades on our platform with our FX market makers. This revenue is primarily a function of the number of active accounts, the volume those accounts trade and the fees we earn on that volume.

Retail Trading Revenue — Retail trading revenue is our largest source of revenue and is primarily driven by: (i) the number of active accounts and the mix of those accounts — high volume accounts are charged a lower markup; (ii) the volume these accounts trade, which is driven by the amount of funds customers have on deposit, also referred to as customer equity, and the overall volatility of the FX market; (iii) the size of the markup we receive, which is a function of the mix of currency pairs traded, the spread we add to the prices supplied by our FX market makers and the interest differential between major currencies and the markup we receive on interest paid and received on customer positions held overnight; and (iv) retail revenues earned from contract for differences (“CFD”) trading, fees earned through white label relationships, payments we receive for order flow from FX market makers and income from spread betting. For the three and six months ended June 30, 2014, 29% and 32%, respectively, of our retail trading revenues were derived from the activities noted in item (iv). For the three and six months ended June 30, 2013, 35% and 31%, respectively, of our retail trading revenues were derived from the activities noted in item (iv).

Institutional Trading Revenue — We generate revenue by executing spot FX trades on behalf of institutional customers through our institutional trading desks: FXCM Pro and Faros, a company in which we acquired a 50.1% controlling interest. See

[Table of Contents](#)

“*Faros Acquisition*” under “*Results of Operations*”. The counterparties to these trades are external financial institutions that hold customer account balances and settle these transactions. We receive commissions for these services without incurring market risk. We also earn revenues from market making and electronic trading in the institutional FX spot and futures markets through Lucid. In addition, with the creation of V3, we recently expanded market making and electronic trading into other asset classes. The income we earn on market making and electronic trading represents the spread between the bid and ask price for positions purchased and sold and the change in value of positions held.

Other — We are engaged in various ancillary FX related services and joint ventures, including use of our platform and trading facilities, providing technical expertise, and earning fees from data licensing. In addition, through our subsidiary FXCM Securities Limited (“FSL”) we earn commission revenues through equity and related brokerage activities.

Primary Expenses

Compensation and Benefits — Compensation and benefits expense includes employee salaries, bonuses, stock compensation awards, benefits and employer taxes. Changes in this expense are driven by fluctuations in the number of employees, changes in the composition of our workforce, increases in wages as a result of inflation or labor market conditions, changes in rates for employer taxes and other cost increases affecting benefit plans. The expense associated with our bonus plans can also have a significant impact on this expense category and may vary from period to period. Compensation and benefits also includes the portion of the 49.9% of Lucid’s earnings allocated among the non-controlling members of Lucid based on services provided. This allocation of Lucid’s non-controlling members earnings is reported as a component of compensation expense under *Allocation of net income to Lucid members for services provided*.

At the time of our initial public offering (“IPO”) and thereafter, we have periodically granted awards of stock options to purchase shares of FXCM Inc.’s Class A common stock pursuant to the Long-Term Incentive Plan (“LTIP”) to certain employees and independent directors. Stock options granted to employees in connection with our IPO were our largest grant to date representing 73% of our stock options awards granted. For the three and six months ended June 30, 2014, we recorded stock compensation expense related to stock options granted of \$2.7 million and \$5.1 million, of which \$2.2 million and \$4.1 million, respectively, related to stock options granted at the time of our IPO. For the three and six months ended June 30, 2013, we recorded stock compensation expense related to stock options granted of \$2.5 million and \$5.0 million, respectively, of which \$2.1 million and \$4.1 million, respectively, related to stock options granted at the time of our IPO. The LTIP also provides for other stock based awards (“Other Equity Awards”) that may be granted by our Executive Compensation Committee. We did not incur any expense for Other Equity Awards for the three and six months ended June 30, 2014 and 2013.

The Lucid acquisition resulted in \$9.4 million of deferred compensation. Through June 30, 2014, we recognized \$6.4 million of this deferred compensation, of which we recognized as compensation expense \$0.8 million and \$1.6 million in the three and six months ended June 30, 2014, respectively. For the three and six months ended June 30, 2013, we recognized \$0.8 million and \$1.6 million as compensation expense, respectively.

Referring Broker Fees — Referring broker fees consist primarily of compensation paid to our brokers and white labels. We generally provide white labels access to our platform systems and back-office services necessary for them to offer FX trading services to their customers. We also establish relationships with referring brokers that identify and direct potential FX trading customers to our platform. Referring brokers and white labels generally incur advertising, marketing and other expenses associated with attracting the customers they direct to our platform. Accordingly, we do not incur any incremental sales or marketing expense in connection with trading revenue generated by customers provided through our referring brokers and/or white labels. We do, however, pay a portion of the FX trading revenue generated by the customers of our referring brokers and/or white labels and record this expense as Referring broker fees.

Advertising and Marketing — Advertising and marketing expense consists primarily of electronic media, print and other advertising costs, as well as costs associated with our brand campaign and product promotion.

Communications and Technology — Communications and technology expense consists primarily of costs for network connections to our electronic trading platforms, telecommunications costs, and fees paid for access to external market data. This expense is affected primarily by the growth of electronic trading, our network/platform capacity requirements and by changes in the number of telecommunication hubs and connections which provide our customers with direct access to our electronic trading platforms.

Trading Costs, Prime Brokerage and Clearing Fees — Trading costs, prime brokerage and clearing fees primarily represent fees paid to third party clearing banks and prime brokers for clearing foreign exchange spot futures currency and contract transactions, transaction fees paid to exchanges, equity options brokerage activity fees, and fees paid to third party

[Table of Contents](#)

providers for use of their platform for our market making business. Clearing fees primarily fluctuate based on changes in volume, rate of clearing fees charged by clearing banks and rate of fees paid to exchanges.

General and Administrative — We incur general and administrative costs to support our operations, including:

- *Professional fees and outside services expenses* — consisting primarily of legal, accounting and outsourcing fees;
- *Bank processing fees* — consisting of service fees charged by banks primarily related to our customer deposits and withdrawals;
- *Regulatory fees* — consisting primarily of fees from regulators overseeing our businesses which are largely tied to our overall trading revenues. Regulatory fees also includes fines and restitution imposed by regulators from time to time; and
- *Occupancy and building operations expense* — consisting primarily of costs related to leased property including rent, maintenance, real estate taxes, utilities and other related costs.

Depreciation and Amortization — Depreciation and amortization expense results primarily from the depreciation of long-lived assets purchased and internally developed software that has been capitalized.

Amortization of purchased intangibles primarily includes amortization of intangible assets obtained through our various acquisitions.

Income Taxes — Holdings operates in the U.S. as a limited liability company that is treated as a partnership for U.S. federal, state and local income tax purposes. As result, Holdings' income from its U.S. operations is not subject to U.S. federal income tax because the income is attributable to its members. Accordingly, our U.S. tax provision is solely based on the portion of Holdings' income attributable to FXCM Inc. and excludes the income attributable to other members of Holdings whose income is included in Net (loss) income attributable to non-controlling interest in FXCM Holdings, LLC in our condensed consolidated statements of operations.

In addition to U.S. federal and state income taxes, Holdings is subject to New York City Unincorporated Business Tax which is attributable to Holdings' operations apportioned to New York City. Our foreign subsidiaries are also subject to local taxes. In addition, Lucid LLP is a limited liability partnership treated as a partnership for income tax purposes. As a result, Lucid LLP's income is not subject to U.K. corporate income tax because the income is attributable to its members. Therefore, Lucid's tax provision (a component of the Company's tax provision) is solely based on the portion of its income attributable to its managing member, which is a U.K. limited liability company subject to U.K. corporate income tax and excludes the income attributable to other members of Lucid LLP whose income is included in *Allocation of net income to Lucid members for services provided* reported in our condensed consolidated statements of operations as a component of compensation and benefits expense.

Other

Net (loss) income attributable to non-controlling interest in FXCM Holdings, LLC — FXCM Inc. is a holding company, and its sole material asset is a controlling membership interest in Holdings. As the sole managing member of Holdings, FXCM Inc. operates and controls all of the business and affairs of Holdings and, through Holdings and its subsidiaries, conducts our business. FXCM Inc. consolidates the financial results of Holdings and its subsidiaries, and the ownership interest of the other members of Holdings is reflected as a non-controlling interest in our condensed consolidated financial statements.

Net loss attributable to other non-controlling interests and Allocation of net income to Lucid members for services provided — We consolidate the financial results of Lucid in which we have a 50.1% controlling interest. The 49.9% ownership interest of the non-controlling Lucid members is reflected as follows:

- The portion of the 49.9% of earnings allocated among the non-controlling members of Lucid based on services provided to Lucid is reported as a component of compensation and benefits expense in our condensed consolidated statements of operations.
- The portion of the 49.9% of earnings allocated among the non-controlling members not allocated based on services provided is reported as a component of Net loss attributable to other non-controlling interests in our condensed consolidated statements of operations.

[Table of Contents](#)

We also consolidate the financial results of other entities in which we have a controlling interest. The ownership interests of the non-controlling members is reported in net loss attributable to other non-controlling interests in the condensed consolidated statements of operations.

Adjusted Pro Forma Results - We utilize and report results presented on an Adjusted Pro Forma basis that excludes certain income and expenses not in the ordinary course of business¹, certain items relating to the IPO of FXCM Inc. and also reflect the exchange of all units of FXCM Holdings, LLC for shares of Class A common stock of FXCM Inc. We manage our business using these measures and believe that these Adjusted Pro Forma measures, when presented in conjunction with comparable generally accepted accounting principles in the United States of America ("U.S. GAAP") measures, are useful to investors to compare our results across different periods and facilitate an understanding of our operating results. Income and expense items not in the ordinary course of our business are noted throughout our management discussion and analysis. Further, the differences between Adjusted Pro Forma and U.S. GAAP results and reconciliations of our Adjusted Pro Forma results with our results presented in accordance with U.S. GAAP are detailed in the Non-GAAP Financial Measures section of our Management's Discussion and Analysis.

¹ 2014 items primarily include a \$3.7 million benefit related to acquisition contingent consideration, \$2.7 million to eliminate costs associated with regulatory settlements, \$4.1 million of stock based compensation associated with the IPO, \$1.3 million for a put option payment and \$1.2 million of V3 acquisition related costs. 2013 items primarily include \$4.1 million of stock based compensation associated with the IPO. Please refer to Non-GAAP Financial Measures for additional information.

Segment Information

Accounting Standards Codification ("ASC") Topic 280, *Segment Reporting* establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Our operations relate to FX trading and related services and operate in two segments — retail and institutional, with different target markets with separate sales forces, customer support and trading platforms. For financial information regarding our segments, see Note 18 to our condensed consolidated financial statements.

RESULTS OF OPERATIONS

V3 Acquisition

On January 21, 2014, (the "V3 Acquisition Date") the Company, through a new entity, V3, created with the non-controlling members of Lucid, completed the acquisition of certain assets of Infinium Capital Holdings LLC ("Infinium") and certain of its affiliates. The acquisition expands the Lucid business model into a broader array of financial instruments and provides more robust connectivity to various financial exchanges. The consideration for the acquisition was approximately \$31.6 million consisting of cash, assumed liabilities and the credit of \$12.1 million of Infinium senior secured notes plus interest held and exchanged by a subsidiary of the Company (see Note 3 to the condensed consolidated financial statements). The Company holds a controlling 50.1% interest in V3.

The acquisition was accounted for in accordance with ASC 805. The assets acquired and the non-controlling interest were recorded at their estimated fair values in accordance with ASC 820 at the V3 Acquisition Date. Full goodwill of \$19.4 million was calculated as the fair value of estimated consideration over the estimated fair value of the net assets acquired. The estimated fair value of the non-controlling interest was \$15.8 million, and was determined by the fair value of the consideration. Goodwill was allocated at the reporting unit level in the Institutional segment based on an analysis of the fair value of assets acquired. V3 is included in the Institutional segment for purposes of segment reporting (see Note 18 to the unaudited condensed consolidated financial statements).

Faros Acquisition

On September 20, 2013 (the "Faros Acquisition Date"), we acquired a 50.1% controlling interest in Faros. Faros provides foreign exchange intelligence, market coverage, and execution services to the institutional foreign exchange market. The acquisition further expands our presence and capabilities in the institutional marketplace. As consideration, we provided an initial cash payment of \$5.0 million (the "Initial Payment") and a follow-on payment (the "Follow-on Payment") to be made in 2015 in an amount to be determined, based on the sale purchase agreement (the "Faros Purchase Agreement") estimated at \$10.6 million on the Faros Acquisition Date for a total estimated purchase price of \$15.6 million. In December

[Table of Contents](#)

2013, the Company recorded a reduction to the Follow-on Payment of \$6.9 million. In March 2014, the Company reduced the Follow-on Payment by the remaining \$3.7 million. The \$3.7 million decrease in the estimated fair value of the Follow-on Payment was recorded in Other income in the condensed consolidated statements of operations. The decline in the estimated fair value of the Follow-on Payment is due to lowering our Faros EBITDA estimate. Pursuant to the terms of the Faros Purchase Agreement, the Follow-on Payment is payable partly in shares of FXCM Inc.'s Class A common stock to one of the Faros sellers if certain criteria are met. Under the terms of the Faros Purchase Agreement, any of the FXCM Inc.'s Class A common stock issued to the Faros seller will be restricted for sale until September 2021 if the Faros seller ceases to be employed by Faros as of either December 31, 2015 or December 31, 2016 for reasons other than death, disability or the sale of the majority of the Corporation's combined voting power.

The assets acquired, liabilities assumed and non-controlling interest were recorded at their estimated fair values at the Faros Acquisition Date. This resulted in the recording of intangible assets of \$8.0 million primarily related to customer relationships, which will be amortized over 4 years. Goodwill of \$23.0 million was recorded as the fair value of estimated consideration over the estimated fair value of the net assets acquired. In addition, the estimated fair value of a liquidity restriction related to the Follow-on Payment was \$0.4 million which is accounted for as deferred compensation and recognized over a 3.25 year term in compensation and benefits in the statements of operations. As a result of the reduction of the Follow-on Payment, the Company did not record deferred compensation associated with the liquidity restriction for the six months ended June 30, 2014.

[Table of Contents](#)

The following table sets forth our condensed consolidated statements of operations for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Amounts in thousands)			
Revenues				
Retail trading revenue	\$ 73,736	\$ 104,068	\$ 156,396	\$ 195,322
Institutional trading revenue	21,787	31,792	47,937	59,348
Trading revenue	95,523	135,860	204,333	254,670
Interest income	693	670	1,256	1,349
Brokerage interest expense	(164)	(69)	(260)	(124)
Net interest revenue	529	601	996	1,225
Other income	1,875	3,672	7,606	7,102
Total net revenues	97,927	140,133	212,935	262,997
Operating Expenses				
Compensation and benefits	28,821	26,587	58,711	50,120
Allocation of net income to Lucid members for services provided	2,315	15,004	5,288	15,004
Total compensation and benefits	31,136	41,591	63,999	65,124
Referring broker fees	16,495	22,422	35,617	43,772
Advertising and marketing	7,084	6,157	13,581	13,508
Communication and technology	12,031	9,765	24,250	18,120
Trading costs, prime brokerage and clearing fees	8,030	8,961	16,236	16,899
General and administrative	15,611	13,423	31,679	25,894
Depreciation and amortization	13,122	12,481	25,752	24,455
Total operating expenses	103,509	114,800	211,114	207,772
Total operating (loss) income	(5,582)	25,333	1,821	55,225
Loss on equity method investments, net	224	397	534	545
Interest on borrowings	3,096	1,290	6,093	2,107
(Loss) income before income taxes	(8,902)	23,646	(4,806)	52,573
Income tax (benefit) provision	(747)	6,390	504	14,349
Net (loss) income	(8,155)	17,256	(5,310)	38,224
Net (loss) income attributable to non-controlling interest in FXCM Holdings, LLC	(2,209)	14,093	218	24,323
Net loss attributable to other non-controlling interests	(2,868)	(6,961)	(4,527)	(3,083)
Net (loss) income attributable to FXCM Inc.	\$ (3,078)	\$ 10,124	\$ (1,001)	\$ 16,984

[Table of Contents](#)*Other Selected Operating and Financial Metrics*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Customer equity (in millions)	\$ 1,312	\$ 1,171	\$ 1,312	\$ 1,171
Tradable accounts	208,365	190,998	208,365	190,998
Active accounts	178,536	182,225	178,536	182,225
Daily average trades - retail customers	348,825	516,960	380,860	478,129
Daily average trades per active account	2.0	2.8	2.1	2.6
Total retail trading volume ⁽¹⁾ (billions)	\$ 769	\$ 1,152	\$ 1,706	\$ 2,193
Retail trading revenue per million traded ⁽¹⁾	\$ 96	\$ 90	\$ 92	\$ 89
Average retail customer trading volume per day ⁽¹⁾ (billions)	\$ 11.8	\$ 17.7	\$ 13.3	\$ 17.1
Daily average trades - institutional customers	50,872	34,156	44,033	25,831
Institutional trading volumes ⁽¹⁾ (billions)	\$ 596	\$ 558	\$ 1,142	\$ 931
Average institutional customer trading volume per day ⁽¹⁾ (billions)	\$ 9.2	\$ 8.6	\$ 8.9	\$ 7.3
Trading days	65	65	128	128

(1) Volume that an FXCM customer traded in period translated into US dollars.

Three months ended June 30, 2014**Highlights**

Total retail trading volumes decreased \$383.0 billion or 33.2% to \$769.0 billion for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The decrease primarily stems from lower currency volatility. Total active retail customer accounts at June 30, 2014 were 178,536, a decrease of 2% from June 30, 2013.

- Total trading revenues decreased \$40.3 million or 30% to \$95.5 million for the three months ended June 30, 2014 compared to the three months ended June 30, 2013.
- Net income decreased \$13.2 million to a net loss of \$3.1 million for the three months ended June 30, 2014 compared to the three months ended June 30, 2013 as the decline in trading volume impacted net income in both our retail and institutional segments.
- During the quarter, we acquired 6,172 active accounts with \$23.4 million in client equity from FXDirectDealer LLC ("FXDD").

Revenues

Retail trading revenue decreased by \$30.3 million or 29% to \$73.7 million for the three months ended June 30, 2014 compared to the three months ended June 30, 2013 primarily due to 33.2% lower retail trading volumes. Revenue from retail FX trading was down \$20.2 million and CFD revenue was down \$10.1 million. Revenue from retail FX trading for the three months ended June 30, 2014 was impacted by muted currency volatility whereas revenue for the three months ended June 30, 2013 benefited from a spike in currency volatility.

Institutional trading revenue decreased \$10.0 million to \$21.8 million for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The net decrease of \$10.0 million is primarily due to a decrease of \$13.7 million and \$2.1 million in Lucid and FXCM Pro revenues, respectively. These decreases were partially offset by V3 revenue of \$4.4 million, revenue from Faros of \$0.3 million and an increase of \$1.2 million from institutional business related to FastMatch, Inc. ("FastMatch"). The decline in Lucid and FXCM Pro revenues is attributable to the decrease in currency volatility. Similar to retail FX trading revenues, Lucid and FXCM Pro revenues for the three months ended June 30, 2014

[Table of Contents](#)

were impacted by muted currency volatility whereas revenue for the three months ended June 30, 2013 benefited from a spike in currency volatility.

Net interest revenue for the three months ended June 30, 2014 of \$0.5 million was flat compared to the three months ended June 30, 2013 as low yields continue to impact this revenue stream.

Other income of \$1.9 million for the three months ended June 30, 2014 primarily consists of \$0.2 million of account dormancy and ancillary fees and \$1.5 million related to FSL's brokerage activities. Other income of \$3.7 million for the three months ended June 30, 2013 primarily consists of \$1.1 million of account dormancy and ancillary fees and \$2.2 million related to FSL's brokerage activities.

Operating Expenses

Total compensation and employee benefits decreased \$10.5 million or 25% for the three months ended June 30, 2014 compared to the three months ended June 30, 2013, primarily due to a decrease of \$12.7 million in *Compensation expense - Allocation of net income to Lucid members for services provided*. This expense represents the portion of the 49.9% of Lucid's earnings allocated among the non-controlling members of Lucid based on services provided to Lucid and will vary based on Lucid's earnings and the allocation of earnings among non-controlling members. Excluding this expense, compensation and benefits increased \$2.2 million for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. Of the \$2.2 million increase, \$1.7 million is attributable to V3 and Faros. The remaining increase is primarily attributable to an increase in salaries of \$1.3 million due to higher headcount, partially offset by lower variable compensation of \$1.2 million.

Referring broker fees decreased \$5.9 million or 26% to \$16.5 million for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The decrease in referring broker fees is correlated to a decrease in indirect volumes of 28% for the three months ended June 30, 2014 compared to the three months ended June 30, 2013, as well as a decrease in institutional spreads, which reduced the fees to institutional referring brokers. The decrease in indirect volumes of 28% is attributable to the decline in currency volatility.

Advertising and marketing expense increased \$0.9 million or 15% to \$7.1 million for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The increase is attributable to increases in advertising and marketing spend in Asia which is our largest volume market and Europe where we plan to introduce single share CFD's.

Communication and technology expense increased \$2.3 million to \$12.0 million for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The net increase is primarily attributable to \$2.3 million of V3 communication and technology costs and \$0.9 million higher platform costs for FastMatch, partially offset by lower third party platform costs and lower technology costs for FXCMJ.

Trading costs, prime brokerage and clearing fees decreased \$0.9 million to \$8.0 million for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The net decrease of \$0.9 million is primarily attributable to \$2.2 million of lower trading fees for Lucid due to lower trading activity and \$0.3 million of lower fees related to FSL's brokerage activities, partially offset by \$1.0 million of trading costs for V3 and \$0.5 million of higher prime broker fees primarily related to FastMatch.

General and administrative expense increased \$2.2 million for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The \$2.2 million increase is primarily attributable to (i) a charge of \$1.3 million related to a put option payment for Online Courses (see Note 13 to the condensed consolidated financial statements); \$0.7 million of net expense related to regulatory and customer settlements; (iii) \$0.5 million of general and administrative expense for V3; (iv) \$0.4 million higher legal costs; and (v) \$0.3 million higher UK regulatory fees for current year levies. These increases were partially offset by lower accounting and professional fees of \$1.5 million.

Depreciation and amortization expense increased \$0.6 million or 5% to \$13.1 million for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The \$0.6 million increase is primarily attributable to an increase in amortization expense of \$0.6 million related to capitalized software and \$0.4 million related to intangibles. The increase in intangible amortization expense relates to intangibles acquired in the V3 and Faros acquisitions and the acquisition of customer accounts from FXDD.

[Table of Contents](#)**Interest on Borrowings**

The following table sets forth total interest expense recognized for the period indicated:

	Three Months Ended	
	June 30 2014	June 30 2013
	(In thousands)	
Contractual interest expense		
Credit Agreement	\$ 320	\$ 346
Lucid Promissory Notes	51	62
Convertible Notes ⁽¹⁾	970	302
Amortization of Debt Discount		
Convertible Notes ⁽¹⁾	1,302	390
Amortization of Debt Issuance Costs		
Credit Agreement	151	140
Convertible Notes ⁽¹⁾	302	50
Total interest expense	<u>\$ 3,096</u>	<u>\$ 1,290</u>

⁽¹⁾ Convertible Notes were issued June 3, 2013. See “Liquidity and Capital Resources” for more information.

During the three months ended June 30, 2014 and 2013, our average borrowings under the Credit Agreement were \$47.8 million and \$57.6 million, respectively, and the weighted average interest rates were 2.66% and 2.36%, respectively. During the three months ended June 30, 2014 and 2013, the average Lucid Promissory Notes outstanding were \$9.0 million and \$20.8 million, respectively.

Income Taxes

	Three Months Ended	
	June 30, 2014	June 30, 2013
	(In thousands, except percentages)	
(Loss) income before income taxes	\$ (8,902)	\$ 23,646
Income tax (benefit) provision	\$ (747)	\$ 6,390
Effective tax rate	8.4%	27.0%

Our operating subsidiary, Holdings, is as a limited liability company that is treated as a partnership for U.S. federal and state income tax purposes. As a result, Holdings income is not subject to U.S. federal and most state income tax because the income is attributable to its members. Therefore, our U.S. tax provision is solely based on the portion of Holdings' income attributable to FXCM Inc. and excludes the income attributable to other members of Holdings whose income is included in Net income attributable to non-controlling interest.

Lucid LLP is a limited liability partnership that is treated as a partnership for income tax purposes. As a result, Lucid LLP's income is not subject to U.K. corporate income tax because the income is attributable to its members. Therefore, Lucid's tax provision (a component of our tax provision) is solely based on the portion of its income attributable to its managing member, which is a U.K. limited liability company subject to U.K. corporate income tax, and excludes the income attributable to other members of Lucid LLP whose income is included in *Allocation of net income to Lucid members for services provided* reported in our condensed consolidated statements of operations as a component of compensation and benefits expense.

Based on the above, our effective tax rates reflect the proportion of income recognized by FXCM Inc. taxed at the U.S. marginal corporate income tax rate of 34% and the proportion of income recognized by each of our international

[Table of Contents](#)

subsidiaries subject to tax at their respective local jurisdiction tax rates unless subject to U.S. tax by election or as a U.S. controlled foreign corporation.

Our income tax provision decreased \$7.1 million for the three months ended June 30, 2014 compared to the three months ended June 30, 2013 due to the decrease in taxable income. The decrease in the effective tax rate for the three months ended June 30, 2014 compared to the three months ended June 30, 2013 is principally due to unfavorable tax adjustments applied to the current year tax loss benefit related to the non-deductibility of losses from certain partnerships that are allocated to other members, non-deductible penalties and jurisdictional tax rate differences. Also during the quarter, as in prior years, the Company established a valuation allowance on the Company's deferred tax asset associated with the foreign tax credit carryforwards generated during the period.

Six months ended June 30, 2014

Highlights

Total retail trading volumes decreased \$487.0 billion or 22.2% to \$1,706.0 billion for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The decrease primarily stems from lower currency volatility. Total active retail customer accounts at June 30, 2014 were 178,536, a decrease of 2% from June 30, 2013.

- Total trading revenues decreased \$50.3 million or 19.8% to \$204.3 million for the six months ended June 30, 2014 compared to the six months ended June 30, 2013.
- Net income decreased \$18.0 million to a net loss of \$1.0 million for the six months ended June 30, 2014 compared to the six months ended June 30, 2013 as the decline in trading volume impacted net income in both our retail and institutional segments.
- In May 2014 we acquired 6,172 active accounts with \$23.4 million in client equity from FXDD.

Revenues

Retail trading revenue decreased by \$38.9 million or 19.9% to \$156.4 million for the six months ended June 30, 2014 compared to the six months ended June 30, 2013 primarily due to 22.2% lower retail trading volumes. Revenue from retail FX trading was down \$34.9 million and CFD revenue was down \$4.0 million. Revenue from retail FX trading for the six months ended June 30, 2014 was impacted by muted currency volatility whereas revenue for the six months ended June 30, 2013 benefited from a higher level of currency volatility particularly in the second quarter of 2013.

Institutional trading revenue decreased \$11.4 million to \$47.9 million for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The net decrease of \$11.4 million is due to a decrease of \$21.2 million and \$1.4 million in Lucid and FXCM Pro revenues, respectively. These decreases were partially offset by V3 revenue of \$8.8 million, revenue from Faros of \$0.8 million and an increase of \$1.6 million from institutional business related to FastMatch. The decline in Lucid and FXCM Pro revenues is attributable to lower currency volatility.

Net interest revenue for the six months ended June 30, 2014 was flat compared to the six months ended June 30, 2013 as low yields continue to impact this revenue stream.

Other income of \$7.6 million for the six months ended June 30, 2014 primarily consists of the \$3.7 million reduction in the Faros Follow-on Payment, \$0.6 million of account dormancy and ancillary fees and \$3.0 million related to FSL's brokerage activities. Other income of \$7.1 million for the six months ended June 30, 2013 primarily consists of \$4.2 million related to FSL's brokerage activities, \$1.2 million of account dormancy and ancillary fees and a bad debt recovery of \$0.8 million.

Operating Expenses

Total compensation and employee benefits decreased \$1.1 million or 1.7% for the six months ended June 30, 2014 compared to the six months ended June 30, 2013 primarily due to a decrease of \$9.7 million in *Compensation expense - Allocation of net income to Lucid members for services provided*. This expense represents the portion of the 49.9% of Lucid's earnings allocated among the non-controlling members of Lucid based on services provided to Lucid and will vary based on Lucid's earnings and the allocation of earnings among non-controlling members. Excluding these expenses, compensation and benefits increased \$8.6 million for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. Of the \$8.6 million increase, \$3.7 million is attributable to V3 and Faros. The remaining increase is primarily

[Table of Contents](#)

attributable to an increase in salaries of \$2.9 million due to higher headcount, higher variable compensation of \$0.5 million and higher employee benefits of \$1.5 million.

Referring broker fees decreased \$8.2 million or 18.6% to \$35.6 million for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The decrease in referring broker fees is correlated to the decrease in indirect volumes of 19% for the six months ended June 30, 2014 compared to the six months ended June 30, 2013, as well as a decrease in institutional spreads, which reduced the fees to institutional referring brokers. The decrease in indirect volumes is attributable to the decline in currency volatility.

Advertising and marketing expense increased slightly by \$0.1 million to \$13.6 million for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The net increase is attributable to increases in advertising and marketing spend in Asia which is our largest volume market and Europe where we plan to introduce single share CFD's, partially offset by lower spend in other markets consistent with our strategy to reduce costs through targeted advertising and marketing initiatives.

Communication and technology expense increased \$6.1 million to \$24.3 million for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase is primarily attributable to \$4.3 million of V3 communication and technology costs and \$2.2 million higher platform costs for FastMatch, partially offset by lower third party platform costs and lower technology costs for FXCMJ.

Trading costs, prime brokerage and clearing fees decreased \$0.7 million to \$16.2 million for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The net decrease of \$0.7 million is primarily attributable to \$3.5 million of lower trading fees for Lucid due to lower trading activity, partially offset by \$1.9 million of additional expense attributable to V3 and \$1.0 million of higher prime broker fees primarily related to FastMatch.

General and administrative expense increased \$5.8 million for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The \$5.8 million increase is primarily attributable to (i) an accrual of \$1.8 million for additional restitution related to trade execution practices of UK and FSL in the period from 2006 to 2010; (ii) \$2.0 million of general and administrative expense and acquisition related costs for V3; (iii) a charge of \$1.3 million related to a put option payment for Online Courses (see Note 13 to the condensed consolidated financial statements); (iv) \$1.4 million of regulatory fines and customer settlements; (v) \$1.3 million of higher legal costs; and (vi) \$0.5 million of higher local taxes. These increases were partially offset by lower accounting and professional fees of \$2.1 million, lower UK regulatory fees of \$0.4 million due to a benefit in the first quarter of 2014 to adjust estimated prior year levies and \$0.6 million of lower transaction processing fees for FXCMJ primarily due to business moving to an in house platform in 2013.

Depreciation and amortization expense increased \$1.3 million or 5.3% to \$25.8 million for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The \$1.3 million increase is primarily attributable to an increase in amortization expense of \$1.5 million related to capitalized software and \$0.4 million related to intangibles. The increase in intangible amortization expense relates to intangibles acquired in the V3 and Faros acquisitions and the acquisition of customer accounts from FXDD.

[Table of Contents](#)**Interest on Borrowings**

The following table sets forth total interest expense recognized for the period indicated:

	Six Months Ended	
	June 30, 2014	June 30, 2013
	(In thousands)	
Contractual interest expense		
Credit Agreement	\$ 544	\$ 869
Lucid Promissory Notes	105	217
Convertible Notes ⁽¹⁾	1,941	302
Amortization of Debt Discount		
Convertible Notes ⁽¹⁾	2,597	390
Amortization of Debt Issuance Costs		
Credit Agreement	301	279
Convertible Notes ⁽¹⁾	605	50
Total interest expense	<u>\$ 6,093</u>	<u>\$ 2,107</u>

⁽¹⁾ Convertible Notes were issued June 3, 2013. See “Liquidity and Capital Resources” for more information.

During the six months ended June 30, 2014 and 2013, our average borrowings under the Credit Agreement were \$42.5 million and \$70.4 million, respectively, and the weighted average interest rates were 2.55% and 2.43%, respectively. During the six months ended June 30, 2014 and 2013, the average Lucid Promissory Notes outstanding were \$9.4 million and \$21.8 million, respectively.

Income Taxes

	Six Months Ended	
	June 30, 2014	June 30, 2013
	(In thousands, except percentages)	
(Loss) income before income taxes	\$ (4,806)	\$ 52,573
Income tax provision	\$ 504	\$ 14,349
Effective tax rate	<u>(10.5)%</u>	<u>27.3%</u>

Our operating subsidiary, Holdings, is as a limited liability company that is treated as a partnership for U.S. federal and state income tax purposes. As a result, Holdings income is not subject to U.S. federal and most state income tax because the income is attributable to its members. Therefore, our U.S. tax provision is solely based on the portion of Holdings' income attributable to FXCM Inc. and excludes the income attributable to other members of Holdings whose income is included in Net (loss) income attributable to non-controlling interest in FXCM Holdings, LLC.

Lucid LLP is a limited liability partnership that is treated as a partnership for income tax purposes. As a result, Lucid LLP's income is not subject to U.K. corporate income tax because the income is attributable to its members. Therefore, Lucid's tax provision (a component of our tax provision) is solely based on the portion of its income attributable to its managing member, which is a U.K. limited liability company subject to U.K. corporate income tax, and excludes the income attributable to other members of Lucid LLP whose income is included in *Allocation of net income to Lucid members for services provided* reported in our condensed consolidated statements of operations as a component of compensation and benefits expense.

Based on the above, our effective tax rates reflect the proportion of income recognized by FXCM Inc. taxed at the U.S. marginal corporate income tax rate of 34% and the proportion of income recognized by each of our international

[Table of Contents](#)

subsidiaries subject to tax at their respective local jurisdiction tax rates unless subject to U.S. tax by election or as a U.S. controlled foreign corporation.

Our income tax provision decreased \$13.8 million for the six months ended June 30, 2014 compared to the six months ended June 30, 2013 due to the decrease in taxable income. The decrease in the effective tax rate for the six months ended June 30, 2014 compared to the six months ended June 30, 2013 is principally due to unfavorable tax adjustments applied to the current year tax loss benefit related to the non-deductibility of losses from certain partnerships that are allocated to other members, non-deductible penalties and jurisdictional tax rate differences. Also during the quarter, as in prior years, the Company established a valuation allowance on the Company's deferred tax asset associated with the foreign tax credit carryforwards generated during the period.

Segment Results

Retail Trading

Retail Trading is our largest segment and consists of providing FX trading and related services to approximately 178,536 active retail customers globally as of June 30, 2014.

Revenues, operating and other expenses and income before income taxes of the Retail Trading segment for the three and six months ended June 30, 2014 and 2013 are as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	(In thousands)			
Revenues	\$ 76,047	\$ 108,341	\$ 161,005	\$ 203,649
Operating and other expenses	52,032	55,690	103,838	109,432
Income before income taxes	<u>\$ 24,015</u>	<u>\$ 52,651</u>	<u>\$ 57,167</u>	<u>\$ 94,217</u>

Three months ended June 30, 2014

Revenues from our Retail Trading segment decreased \$32.3 million or 30% to \$76.0 million for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The \$32.3 million decrease is primarily due to \$30.3 million lower retail trading revenue due to 33.2% lower retail trading volumes. Revenue from retail FX trading was down \$20.2 million and CFD revenue was down by \$10.1 million. Other income was lower by \$1.8 million primarily due to \$0.9 million of lower dormancy and ancillary fees, as well as \$0.7 million related to lower income from FSL's brokerage activities. Revenue from retail FX trading for the three months ended June 30, 2014 was impacted by muted currency volatility whereas revenue for the three months ended June 30, 2013 benefited from a spike in currency volatility.

Operating and other expenses decreased \$3.7 million or 7% to \$52.0 million for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The net decrease is primarily attributable to lower referring broker fees of \$5.8 million related to lower indirect trading volume partially offset by (i) \$0.9 million increase in advertising and marketing expense for advertising and marketing spend in Asia which is our largest volume market, and in Europe where we plan to introduce single share CFD's; (ii) \$0.7 million increase in employment and benefits attributable to higher headcount partially offset by lower variable compensation and (iii) \$0.3 million increase of general and administrative expense due to higher UK regulatory fees for current year levies.

Six months ended June 30, 2014

Revenues from our Retail Trading segment decreased \$42.6 million or 21% to \$161.0 million for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The \$42.6 million decrease is primarily due to \$38.9 million lower retail FX trading revenue due to 22.2% lower retail trading volumes. Revenue from retail FX trading was down \$34.9 million and CFD revenue was down by \$4.0 million. Other income was lower by \$3.3 million primarily due to \$0.6 million lower revenue from dormancy and ancillary fees, \$1.2 million lower revenue from FSL's brokerage activities and a bad debt recovery of \$0.8 million in the six months ended June 30, 2013.

[Table of Contents](#)

Operating and other expenses decreased \$5.6 million or 5% to \$103.8 million for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The net decrease is primarily attributable to lower referring broker fees of \$8.0 million related to lower indirect trading volume, lower UK regulatory fees of \$0.4 million due to a benefit in the first quarter of 2014 to adjust estimated prior year levies and \$0.6 million of lower transaction processing fees for FXCMJ, primarily due to business moving to an in house platform in 2013. The decreases are partially offset by an increase of \$2.5 million in compensation and employee benefits which is primarily attributable to higher headcount, employee benefits and variable compensation expense, an increase of \$0.3 million in prime brokerage fees, and \$0.5 million in higher amortization expense primarily related to capitalized software and amortization of intangibles related to the acquisition of accounts from FXDD.

Institutional Trading

Our Institutional Trading segment facilitates spot FX trades on behalf of institutional customers, enabling them to obtain optimal prices offered by our FX market makers. The counterparties to these trades are external financial institutions that hold customer account balances and settle these transactions. We receive commissions for these services without incurring credit or market risk. Our Institutional Trading segment also includes Lucid, an electronic market maker and trader in the institutional foreign exchange spot and futures markets, and activity from the recent acquisitions of Faros and V3. The V3 acquisition expanded the Lucid business model into a broader array of financial instruments and provides more robust connectivity to various financial exchanges.

Revenues, operating and other expenses and (loss) income before income taxes of the Institutional Trading segment for the three and six months ended June 30, 2014 and 2013 are as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	(In thousands)			
Revenues	\$ 21,880	\$ 31,792	\$ 51,930	\$ 59,348
Operating and other expenses	25,561	35,439	53,190	52,915
Loss on equity method investments, net	143	445	367	445
(Loss) income before income taxes	<u>\$ (3,824)</u>	<u>\$ (4,092)</u>	<u>\$ (1,627)</u>	<u>\$ 5,988</u>

Three months ended June 30, 2014

Revenues for our Institutional Trading segment decreased \$9.9 million to \$21.9 million for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The net decrease of \$9.9 million is primarily due to a decrease of \$13.7 million and \$2.1 million in Lucid and FXCM Pro revenues, respectively. These decreases were partially offset by V3 revenue of \$4.4 million, revenue from Faros of \$0.3 million and an increase of \$1.2 million from institutional business related to FastMatch.

Operating and other expenses decreased \$9.9 million to \$25.6 million for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The decrease is primarily due to a decrease in Lucid operating expenses of \$15.0 million, including \$12.7 million of compensation expense representing the portion of the 49.9% of Lucid's earnings allocated among the non-controlling members of Lucid based on services provided to Lucid and lower trading costs of \$2.2 million due to the lower trading revenue, and lower variable compensation for FXCM Pro of \$1.4 million. These decreases are partially offset by V3 and Faros operating expenses of \$5.8 million, \$0.9 million higher platform costs for FastMatch, and an increase of \$0.5 million in depreciation and amortization, largely attributable to amortization of intangibles from the Faros and V3 acquisitions.

The Institutional Trading segment includes equity investment losses of \$0.1 million related to our share of FastMatch's earnings.

Six months ended June 30, 2014

Revenues for our Institutional Trading segment decreased by \$7.4 million for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The net decrease of \$7.4 million is due to a decrease of \$21.2 million in

[Table of Contents](#)

Lucid's revenue due to the lower currency volatility, partially offset by a \$3.7 million reduction in the Faros Follow-on Payment recorded in Other income, revenue from V3 of \$8.8 million and revenue from Faros of \$0.8 million.

Operating and other expenses increased \$0.3 million to \$53.2 million for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase is primarily due to V3 and Faros operating expenses of \$11.7 million, \$2.2 million higher platform costs for FastMatch, and an increase of \$0.8 million in depreciation and amortization, largely attributable to amortization of intangibles for the Faros and V3 acquisitions. These increases are partially offset by a decrease in Lucid operating expenses of \$13.7 million including \$9.7 million of compensation expense representing the portion of the 49.9% of Lucid's earnings allocated among the non-controlling members of Lucid based on services provided to Lucid and lower trading costs of \$3.5 million due to the lower trading revenue, and lower variable compensation for FXCM Pro of \$0.9 million.

The Institutional Trading segment includes equity investment losses of \$0.4 million related to our share of FastMatch's earnings.

Corporate

Loss before income taxes of the Corporate segment for the three and six months ended June 30, 2014 and 2013 are as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	(In thousands)			
Revenues	\$ —	\$ —	\$ —	\$ —
Operating and other expenses	29,012	24,961	60,179	47,532
Loss (income) on equity method investments, net	81	(48)	167	100
Loss before income taxes	\$ (29,093)	\$ (24,913)	\$ (60,346)	\$ (47,632)

Three months ended June 30, 2014

Loss before income taxes increased \$4.2 million or 17% to \$29.1 million for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The increase in operating and other expenses of \$4.1 million is primarily attributable to (i) a charge of \$1.3 million related to a put options payment for Online Courses (see Note 13 to the condensed consolidated financial statements); (ii) interest on the Convertible Notes of \$1.8 million; (iii) increased compensation and benefits of \$1.6 million due to higher headcount and variable compensation; (iv) \$0.7 million of net expense related to regulatory and customer settlements and (v) \$0.4 million of higher legal costs. These increases were partially offset by \$1.5 million of lower accounting and professional fees and \$0.6 million of lower communications and technology costs.

Six months ended June 30, 2014

Loss before income taxes increased \$12.7 million or 27% to \$60.3 million for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase in operating and other expenses of \$12.6 million is primarily attributable to (i) an accrual of \$1.8 million for additional restitution related to trade execution practices of UK and FSL in the period from 2006 to 2010; (ii) a charge of \$1.3 million related to a put options payment for Online Courses (see Note 13 to the condensed consolidated financial statements); (iii) interest on the Convertible Notes of \$4.4 million; (iii) increased compensation and benefits of \$3.3 million due to higher headcount, employee benefits and variable compensation expense (iv) \$1.4 million of net expense related to regulatory and customer settlements; (v) \$1.3 million of higher legal costs; and (vi) \$0.5 million of higher local taxes, partially offset by lower accounting and professional fees of \$2.1 million.

[Table of Contents](#)**LIQUIDITY AND CAPITAL RESOURCES**

We finance, and plan to continue to finance, our operating liquidity and capital needs with funds generated from our operations. In addition, we may choose to rely on our Credit Agreement, subject to its terms, to assist us with managing our operating liquidity and capital needs. As of June 30, 2014, we had cash and cash equivalents of \$348.8 million and remaining borrowing capacity under the Credit Agreement of \$125.0 million, subject to the terms and conditions of the Credit Agreement. We primarily invest our cash and cash equivalents in short-term demand deposits at various financial institutions. In general, we believe all our deposits are with institutions of high credit quality and we have sufficient liquidity to conduct the operations of our businesses.

As a holding company, almost all of the funds generated from our operations are earned by our operating subsidiaries. We access these funds through receipt of dividends from our subsidiaries. Some of our subsidiaries are subject to requirements of various regulatory bodies relating to liquidity and capital standards, which are often in excess of the minimum regulatory capital requirements. In addition, pursuant to covenants in the Credit Agreement, certain subsidiaries are required to maintain excess net capital amount of 125% of the minimum regulatory capital. These regulatory and Credit Agreement requirements may limit the funds available for the payment of dividends to us. In addition, while we currently do not intend nor foresee a need to repatriate funds deemed to be permanently reinvested in certain foreign subsidiaries, the election to do so in the future could increase our effective tax rate. At June 30, 2014, approximately 31.3% of our cash and cash equivalents were held in these respective foreign subsidiaries.

As of June 30, 2014				
	Regulatory Jurisdiction	Minimum Regulatory Capital Requirements	Capital Levels Maintained	Excess Net Capital
		(In millions)		
Forex Capital Markets L.L.C.	USA	\$ 29.1	\$ 48.8	\$ 19.7
Forex Capital Markets Limited	U.K.	39.2	103.4	64.2
FXCM Asia Limited	Hong Kong	13.9	29.5	15.6
FXCM Australia, Ltd.	Australia	0.9	5.1	4.2
ODL Group Limited	U.K.	5.7	27.9	22.2
FXCM Securities Limited	U.K.	6.9	44.1	37.2
FXCM Japan Securities Co., Ltd.	Japan	6.3	37.5	31.2
Lucid Markets LLP	U.K.	3.1	43.3	40.2
Faros Trading LLC	USA	—	0.1	0.1

We filed a shelf registration statement on Form S-3 with the SEC on October 4, 2012. The shelf registration statement provides us with the ability to offer, from time to time and subject to market conditions, debt securities, preferred stock, common stock, depositary shares, purchase contracts warrants or units for proceeds in the aggregate amount of up to \$125.0 million. The shelf registration statement is intended to give us greater flexibility to efficiently raise capital and put us in a position to take advantage of favorable market conditions as they arise.

[Table of Contents](#)**Cash Flow and Capital Expenditures***Periods Ended June 30, 2014 and 2013*

The following table sets forth a summary of our cash flow for the six months ended June 30, 2014 and June 30, 2013:

	Six Months Ended June 30,	
	2014	2013
	(In thousands)	
Cash (used in) provided by operating activities	\$ (30)	\$ 95,046
Cash used in investing activities	(39,036)	(36,856)
Cash provided by financing activities	18,557	49,265
Effect of foreign currency exchange rate changes on cash and cash equivalents	4,027	(6,042)
Net (decrease) increase in cash and cash equivalents	(16,482)	101,413
Cash and cash equivalents – end of period	348,763	373,745

Operating Activities

Details of cash used in or provided by operating activities are as follows, with amounts in thousands:

	Six Months Ended June 30,	
	2014	2013
EBITDA ⁽¹⁾	\$ 27,039	\$ 79,135
Non-cash equity-based compensation	6,700	6,519
Net interest payments	(2,578)	(1,207)
Net income tax payments	(402)	(487)
All other, net, including net current assets and liabilities	(30,789)	11,086
Net cash (used in) provided by operating activities	\$ (30)	\$ 95,046

(1) (See Non-GAAP Financial Measures)

Cash provided by operating activities decreased \$95.1 million to net cash used in operating activities of \$0.03 million for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The decrease is primarily attributable to a decrease in EBITDA of \$ 52.1 million, an increase in net due from brokers balances of \$43.1 million, of which approximately \$17.4 million is due to the funding of prime broker accounts for V3 and \$25.7 million is due to the timing of settlements, and \$16.6 million restitution and penalty payments related to trade execution practices of UK and FSL in the period from 2006 to 2010.

[Table of Contents](#)*Investing Activities*

Details of cash used in investing activities are as follows, with amounts in thousands:

Cash flow Investing

	Six Months Ended June 30,	
	2014	2013
Capital expenditures	\$ (11,328)	\$ (10,961)
Acquisition, net of cash acquired	(21,791)	(22,867)
Payment for equity investments	—	(3,000)
Issuance of notes receivable	(1,500)	—
Other	(4,417)	(28)
Net cash used in investing activities	<u>\$ (39,036)</u>	<u>\$ (36,856)</u>

Cash used in investing activities of \$39.0 million in the six months ended June 30, 2014 consisted primarily of \$19.5 million for the V3 acquisition, \$11.3 million of capital expenditures, \$4.4 payment to FXDD for the acquisition of customer accounts, and \$2.3 million pay down of the Lucid promissory notes issued in connection with the Lucid June 2012 acquisition.

Cash used in investing activities of \$36.9 million in the six months ended June 30, 2013 consisted of capital expenditures of \$11.0 million, \$22.9 million pay down of the Lucid promissory notes issued in connection with the Lucid June 2012 acquisition and a \$3.0 million payment for our investment in Fastmatch.

Financing Activities

Details of cash provided by financing activities are as follows, with amounts in thousands:

Cash flow Financing

	Six Months Ended June 30,	
	2014	2013
Distributions - non-controlling members	\$ (4,281)	\$ (7,929)
Contributions from other non-controlling members	2,463	—
Dividend payments	(5,502)	(4,435)
Common stock repurchased	(644)	(12,019)
Proceeds from issuance of Convertible Notes, net of debt issuance costs	—	166,474
Purchase of note hedge relating to the Convertible Notes issuance	—	(29,101)
Proceeds from employee stock option exercises	1,521	2,697
Proceeds from issuance of warrants relating to the Convertible Notes issuance	—	18,578
Net borrowings (payments) under the Credit Agreement	25,000	(85,000)
Net cash provided by (used in) financing activities	<u>\$ 18,557</u>	<u>\$ 49,265</u>

The \$3.6 million decrease in distributions to non-controlling members during the six months ended June 30, 2014 compared to the six months ended June 30, 2013 is attributable to the decrease in net income and to the decrease in Holdings' non-controlling interest ownership. The \$1.1 million increase in dividends paid to FXCM Inc.'s Class A common stockholders during the six months ended June 30, 2014 compared to the six months ended June 30, 2013 is attributable to the increase in the number of FXCM Inc.'s Class A common shares outstanding due to the non-controlling members of Holdings exchanging their membership units for FXCM Inc.'s Class A common stock and stock option exercises. During the six months ended June 30, 2014, net borrowings under the Credit Agreement were \$25.0 million. During the six months ended June 30, 2013, we made payments of \$85.0 million towards outstanding Credit Agreement borrowings primarily using the proceeds from the Convertible Debt Offering.

[Table of Contents](#)***Credit Agreement***

On December 19, 2011, Holdings entered into a credit agreement (the “Credit Agreement”) with a syndicate of financial institutions. The Credit Agreement, which matures in 2016, is guaranteed by certain subsidiaries of Holdings and is secured by a pledge of all of the equity interests in certain of Holdings’ domestic subsidiaries and 65% of the voting equity interests in certain of its foreign subsidiaries.

On August 7, 2014, the Company entered into an amendment to the Credit Agreement by and among Holdings, LLC, Bank of America, N.A., as administrative agent and certain lenders from time to time parties thereto. The amendment reduces the maximum borrowing to \$150.0 million, and modifies certain terms of the Credit Agreement, including the definition of Consolidated EBITDA, to allow for certain one-time expenses to be excluded from the calculation of Holdings’ financial covenants. The amendment also adjusts certain financial covenants, including the increase of the Consolidated Leverage Ratio from “2.50 to 1.00” to “2.75 to 1.00” and establishing a Consolidated Senior Leverage Ratio of 1.50 to 1.00, as each of those terms are defined in the Credit Agreement.

As of June 30, 2014, Holdings has commitments from lenders for \$150.0 million. As of June 30, 2014 and December 31, 2013, Holdings’ outstanding balance under the Credit Agreement was \$25.0 million and nil, respectively.

Under the terms of the Credit Agreement, loans will bear interest at either a Eurodollar Rate or a Base rate (as defined below), at Holdings’ election, plus an applicable margin, based on Holdings’ leverage ratio. In addition, Holdings must pay an annual commitment fee based on Holdings’ leverage ratio on the undrawn commitments under the Credit Agreement. The applicable margin and commitment fees are set forth in the table below:

	Commitment Fee	Applicable Margin for Eurodollar Loans	Applicable Margin for Base Rate Loans
Consolidated Leverage Ratio			
Less than 0.50 to 1.00	0.25%	1.75%	0.75%
Greater than or equal to 0.50 to 1.00 but less than 1.00 to 1.00	0.30%	2.00%	1.00%
Greater than or equal to 1.00 to 1.00 but less than 1.50 to 1.00	0.35%	2.25%	1.25%
Greater than or equal to 1.50 to 1.00, but less than 2.00 to 1.00	0.40%	2.50%	1.50%
Greater than or equal to 2.00 to 1.00	0.45%	2.75%	1.75%

The Base Rate means for any day a fluctuating rate per annum equal to the highest of (a) the Federal Funds Rate, as defined in the Credit Agreement, plus 0.5%, (b) the rate of interest in effect for such day as publicly announced from time to time by the administrative agent, Bank of America, N.A., as its prime rate, and (c) the Eurodollar Rate plus 1.00%. The Eurodollar Rate means the rate per annum equal to (i) the British Bankers Association LIBOR Rate, or (ii) if such rate is not available, the rate per annum determined by the administrative agent.

Interest expense related to borrowings under the Credit Agreement, including the amortization of debt financing costs was \$0.5 million and \$0.8 million, respectively, for the three and six months ended June 30, 2014, respectively. Interest expense related to borrowing under the Credit Agreement, including the amortization of debt financing costs was \$0.5 million and \$1.1 million for the three and six months ended June 30, 2013, respectively.

Pursuant to covenants in the Credit Agreement, Holdings’ is required to maintain: excess net capital amount of 125% of adjusted net capital required to be maintained as of the last day of any fiscal quarter for US and UK (see Note 10), Consolidated Interest Coverage Ratio, Consolidated Leverage Ratio and Consolidated Senior Leverage Ratio, each as defined in the Credit Agreement, of 4.00 to 1.00, 2.75 to 1.00 and 1.50 to 1.00, respectively, as of the last day of any fiscal quarter, Net Unhedged Exposure, as defined in the Credit Agreement, of less than 20% of total assets of Holdings and its subsidiaries, and Net Unhedged Non-FX Exposure, as defined in the Credit Agreement, of less than 10% of total assets of Holdings and its subsidiaries. At June 30, 2014, Holdings’ Consolidated Interest Coverage Ratio, Consolidated Leverage Ratio and Consolidated Senior Leverage Ratio was 17 to 1.0, 2.57 to 1.00 and 0.41 to 1.00, respectively. In addition, the Credit Agreement contains certain customary covenants as well as certain customary events of default. As of June 30, 2014, Holdings was in compliance with all material covenants.

[Table of Contents](#)

During the three and six months ended June 30, 2014, the weighted average dollar amount of borrowings related to the Credit Agreement was \$47.8 million and \$42.5 million, respectively, and the weighted average interest rates were 2.66% and 2.55%, respectively. During the three and six months ended June 30, 2013 the weighted average dollar amount of borrowings related to the Credit Agreement was \$57.6 million and \$70.4 million, respectively, and the weighted average interest rates were 2.36% and 2.43%, respectively.

Senior Convertible Notes due 2018

In June 2013, we issued \$172.5 million principal amount of Convertible Notes and received net proceeds of \$166.5 million, after deducting the initial purchasers' discount and offering expenses. The Convertible Notes pay interest semi-annually on June 15 and December 15 at a rate of 2.25% per year, commencing December 15, 2013. The Convertible Notes will mature on June 15, 2018. We used \$10.5 million of the net proceeds of the offering to fund the net cost of the convertible note hedge and warrant transactions described below, repaid \$80.0 million of outstanding borrowings under our revolving credit agreement and repaid \$22.9 million of outstanding promissory notes issued in connection with the Lucid acquisition. We used the remaining net proceeds from the offering for general corporate purposes, including funding the V3 and Faros acquisitions.

Prior to March 15, 2018, the Convertible Notes will be convertible only upon the occurrence of certain events and during certain periods, and thereafter, at any time until the second scheduled trading day immediately preceding the maturity date of the Convertible Notes. The Convertible Notes will be convertible at an initial conversion rate of 53.2992 shares of FXCM Inc. Class A common stock per \$1,000 principal amount of the Convertible Notes, which is equivalent to an initial conversion price of approximately \$18.76, which represents an approximately 32.5% conversion premium to the last reported sale price of \$14.16 per share of FXCM Inc. Class A common stock on the New York Stock Exchange on May 28, 2013. In addition, following certain corporate transactions that occur prior to the maturity date, FXCM Inc. will, in certain circumstances, increase the conversion rate for a holder that elects to convert its Convertible Notes in connection with such corporate transaction. Upon conversion, FXCM Inc. will deliver cash up to the principal amount. With respect to any conversion value in excess of the principal amount, FXCM Inc. will deliver shares of FXCM Inc. Class A common stock (unless it elects to deliver cash in lieu of all or a portion of such shares).

In connection with the offering of the Convertible Notes, we entered into privately negotiated convertible note hedge transactions. The convertible note hedge transactions will cover, subject to customary anti-dilution adjustments, the number of shares of FXCM Inc. Class A common stock that will initially underlie the Convertible Notes. The convertible note hedge transactions are intended to reduce the potential dilution and/or offset potential cash payments FXCM Inc. is required to make upon conversion of the Convertible Notes. We also entered into privately negotiated warrant transactions with the hedge counterparties relating to the same number of shares of FXCM Inc. Class A common stock as the convertible note hedge transactions. The strike price of the warrant transaction will initially be \$21.24 per share, which represents an approximately 50.0% premium to the last reported sale price of FXCM Inc. common stock on the New York Stock Exchange on May 28, 2013. The warrant transactions will have a dilutive effect to the extent that the market price per share of FXCM Inc.'s Class A common stock exceeds the applicable strike price of the warrants on the applicable expiration dates of the warrants. The net cost of the convertible note hedge transactions after such cost was partially offset by the warrant transactions proceeds was \$10.5 million.

FXCM Inc. entered into several agreements with Holdings pursuant to which, among other things, FXCM Inc. provided Holdings with the net proceeds of the offering less approximately \$10.5 million, which was the net cost to FXCM Inc. of the convertible note hedge transactions discussed above, and Holdings agreed to provide FXCM Inc. with the cash necessary to make any payments required under the Convertible Notes.

Lucid Notes Payable

On June 6, 2014 a series of 2.25% unsecured promissory notes issued to the Lucid sellers in connection with the Lucid acquisition matured. In satisfaction of the matured notes the company repaid \$2.3 million and issued a series of 2.25% unsecured promissory notes to the Lucid sellers for the balance of \$7.5 million with a maturity date of December 6, 2014.

NON-GAAP FINANCIAL MEASURES

Adjusted Pro Forma basis is a non-generally accepted accounting principles ("non-GAAP") measure. Adjusted Pro Forma results begin with information prepared in accordance with U.S. GAAP, adjusted to exclude certain items and reflects the conversion of all units of Holdings for shares of Class A common stock of FXCM Inc. Management believes that the disclosed Adjusted Pro Forma measures and any adjustments thereto, when presented in conjunction with comparable U.S.

[Table of Contents](#)

GAAP measures, are useful to investors to compare FXCM's results across several periods and facilitate an understanding of FXCM's operating results. We use these measures to evaluate our operating performance, as well as the performance of individual employees. These measures should not be considered a substitute for, or superior to, measures of financial performance prepared in accordance with U.S. GAAP. The differences between Adjusted Pro Forma and U.S. GAAP results are as follows:

1. *Assumed Exchange of Units of Holdings for FXCM Inc. Class A Shares.* As a result of the exchange of Holdings units, the non-controlling interest related to these units is converted to controlling interest. The Company's management believes that it is useful to provide the per-share effect associated with the assumed exchange of all Holdings units.
2. *Compensation Expense.* Adjustments have been made to the Adjusted Pro Forma Earnings to eliminate expense relating to stock based compensation relating to the Company's IPO as well as costs associated with the acquisition of V3 Markets, LLC. Given the nature of these expenses, they are not viewed by management as expenses incurred in the ordinary course of business and management believes it is useful to provide the effects of eliminating these expenses.
3. *Lucid Minority Interest/Compensation Expense.* Our reported U.S. GAAP results reflect the portion of the 49.9% of Lucid earnings allocated among the non-controlling members of Lucid based on services provided as a component of compensation expense under *Allocation of net income to Lucid members for services provided*. Adjustments have been made to the Adjusted Pro Forma Earnings to reclassify this allocation of Lucid's earnings attributable to non-controlling members to "Net (loss) income attributable to other non-controlling interests". The Company's management believes that this reclassification provides a more meaningful view of the Company's operating expenses and the Company's economic arrangement with Lucid's non-controlling members. This adjustment has no impact on net income as reported by the Company.
4. *Acquisition Costs/Income.* Adjustments have been made to the Adjusted Pro Forma Earnings to eliminate certain acquisition related costs/income. Given the nature of these items, they are not viewed by management as expenses/income incurred in the ordinary course of business and management believes it is useful to provide the effects of eliminating these items.
5. *Regulatory Costs.* Adjustments have been made to the Adjusted Pro Forma Earnings to eliminate certain costs (including client reimbursements) associated with ongoing discussions and settling certain regulatory matters. Given the nature of these expenses, they are not viewed by management as expenses incurred in the ordinary course of business and management believes it is useful to provide the effects of eliminating these expenses.
6. *Income Taxes.* Prior to the IPO FXCM was organized as a series of limited liability companies and foreign corporations, and even following the IPO not all of the Company's income is subject to corporate-level taxes. As a result, adjustments have been made to the Adjusted Pro Forma Earnings to assume that the Company has adopted a conventional corporate tax structure and is taxed as a C corporation in the U.S. at the prevailing corporate rates. This assumption is consistent with the assumption that all of Holdings units are exchanged for shares of FXCM Inc. Class A common stock, as discussed in Item 1 above, as the assumed exchange would change the tax structure of the Company. In addition, Adjusted Pro Forma income tax provision reflects the tax effect of any Adjusted Pro Forma adjustments.

[Table of Contents](#)

The following table reconciles our Adjusted Pro Forma results with our results presented in accordance with U.S. GAAP for the three months ended June 30, 2014 and 2013:

	Three Months Ended June 30,					
	2014			2013		
	(In thousands, except per share data)					
	As Reported	Adjustments	Adjusted Pro Forma	As Reported	Adjustments	Adjusted Pro Forma
Revenues	\$ 97,927	\$ —	\$ 97,927	\$ 140,133	\$ —	\$ 140,133
Expenses						
Compensation and benefits	28,821	(2,232) ⁽¹⁾	26,589	26,587	(2,058) ⁽¹⁾	24,529
Allocation of net income to Lucid members for services provided	2,315	(2,315) ⁽²⁾	—	15,004	(15,004) ⁽²⁾	—
Total compensation and benefits	31,136	(4,547)	26,589	41,591	(17,062)	24,529
Referring broker fees	16,495	—	16,495	22,422	—	22,422
Depreciation, amortization and interest expense	16,218	—	16,218	13,771	—	13,771
Other expense	42,980	(1,544) ⁽³⁾	41,436	38,703	—	38,703
Total expenses	106,829	(6,091)	100,738	116,487	(17,062)	99,425
(Loss) income before income taxes	(8,902)	6,091	(2,811)	23,646	17,062	40,708
Income tax (benefit) provision	(747)	23 ⁽⁴⁾	(724)	6,390	2,975 ⁽⁴⁾	9,365
Net (loss) income	(8,155)	6,068	(2,087)	17,256	14,087	31,343
Net (loss) income attributable to non-controlling interest in FXCM Holdings, LLC	(2,209)	2,209 ⁽⁵⁾	—	14,093	(14,093) ⁽⁵⁾	—
Net (loss) income attributable to other non-controlling interests	(2,868)	2,315 ⁽⁶⁾	(553)	(6,961)	15,004 ⁽⁶⁾	8,043
Net (loss) income attributable to FXCM Inc.	\$ (3,078)	\$ 1,544	\$ (1,534)	\$ 10,124	\$ 13,176	\$ 23,300
Diluted weighted average shares outstanding as reported and pro forma fully exchanged, fully diluted weighted average shares outstanding	40,287	—	76,169 ⁽⁷⁾	31,829	—	75,715 ⁽⁷⁾
Diluted net (loss) income per share as reported and adjusted pro forma net (loss) income per fully exchanged, fully diluted shares outstanding	\$ (0.08)	—	\$ (0.02)	\$ 0.32	—	\$ 0.31

- (1) Represents the elimination of IPO stock-based compensation.
- (2) Represents the reclassification of the portion of the 49.9% of Lucid's earnings allocated among the non-controlling interests recorded as compensation for U.S. GAAP purposes to Net (loss) income attributable to other non-controlling interests.
- (3) Represents \$0.2 million to eliminate costs associated with regulatory settlements and a \$1.3 million charge related to a put option payment for Online Courses.
- (4) Represents an adjustment to reflect the assumed effective corporate tax rate of approximately 25.8% and 23.0% for the three months ended June 30, 2014 and 2013, respectively, which includes a provision for U.S. federal income taxes and assumes the highest statutory rates apportioned to each state, local and/or foreign jurisdiction. The adjustment assumes full exchange of existing unitholders Holdings units for shares of Class A common stock of the Company and reflects the tax effect of any proforma adjustments.
- (5) Represents the elimination of the non-controlling interest associated with the ownership by existing unitholders of Holdings (excluding FXCM Inc.), as if the unitholders had fully exchanged their Holdings units for shares of Class A common stock of the Company.
- (6) Represents the reclassification of the portion of the 49.9% of Lucid's earnings allocated among the non-controlling interests recorded as compensation for U.S. GAAP purposes to Net (loss) income attributable to other non-controlling interests and the impact of other pro forma adjustments impacting non-controlling interests.

[Table of Contents](#)

- (7) Diluted shares assuming all unitholders had fully exchanged their Holdings units for shares of Class A common stock of the Company.

The following table reconciles our Adjusted Pro Forma results with our results presented in accordance with U.S. GAAP for the six months ended June 30, 2014 and 2013:

	Six Months Ended June 30,					
	2014			2013		
	(In thousands, except per share data)					
	As Reported	Adjustments	Adjusted Pro Forma	As Reported	Adjustments	Adjusted Pro Forma
Revenues	\$ 212,935	\$ (3,672) ⁽¹⁾	\$ 209,263	\$ 262,997	\$ —	\$ 262,997
Expenses						
Compensation and benefits	58,711	(4,406) ⁽²⁾	54,305	50,120	(4,121) ⁽⁸⁾	45,999
Allocation of net income to Lucid members for services provided	5,288	(5,288) ⁽³⁾	—	15,004	(15,004) ⁽³⁾	—
Total compensation and benefits	63,999	(9,694)	54,305	65,124	(19,125)	45,999
Referring broker fees	35,617	—	35,617	43,772	—	43,772
Depreciation, amortization and interest expense	31,845	—	31,845	26,562	—	26,562
Other expense	86,280	(4,950) ⁽⁴⁾	81,330	74,966	—	74,966
Total expenses	217,741	(14,644)	203,097	210,424	(19,125)	191,299
(Loss) income before income taxes	(4,806)	10,972	6,166	52,573	19,125	71,698
Income tax provision	504	950 ⁽⁵⁾	1,454	14,349	4,611 ⁽⁵⁾	18,960
Net (loss) income	(5,310)	10,022	4,712	38,224	14,514	52,738
Net income attributable to non-controlling interest in FXCM Holdings, LLC	218	(218) ⁽⁶⁾	—	24,323	(24,323) ⁽⁶⁾	—
Net (loss) income attributable to other non-controlling interests	(4,527)	5,578 ⁽⁷⁾	1,051	(3,083)	15,004 ⁽³⁾	11,921
Net (loss) income attributable to FXCM Inc.	\$ (1,001)	\$ 4,662	\$ 3,661	\$ 16,984	\$ 23,833	\$ 40,817
Diluted weighted average shares outstanding as reported and pro forma fully exchanged, fully diluted weighted average shares outstanding	37,793	—	78,139 ⁽⁹⁾	30,759	—	75,750 ⁽⁹⁾
Diluted net (loss) income per share as reported and adjusted pro forma net income per fully exchanged, fully diluted shares outstanding	\$ (0.03)	\$ —	\$ 0.05	0.55	—	\$ 0.54

- (1) Represents the elimination of a \$3.7 million benefit recorded to reduce the contingent consideration related to the Faros acquisition.
- (2) Represents the elimination of \$4.1 million of IPO stock-based compensation and \$0.3 million of compensation costs related to the V3 acquisition.
- (3) Represents the reclassification of the portion of the 49.9% of Lucid's earnings allocated among the non-controlling interests recorded as compensation for U.S. GAAP purposes to Net (loss) income attributable to other non-controlling interests.
- (4) Represents the elimination of \$0.9 million of V3 acquisition costs, \$2.7 million to eliminate costs associated with regulatory settlements and a \$1.3 million charge related to a put option payment for Online Courses.
- (5) Represents an adjustment to reflect the assumed effective corporate tax rate of approximately 23.6% and 26.4% for the six months ended June 30, 2014 and 2013, respectively, which includes a provision for U.S. federal income taxes and assumes the highest statutory rates apportioned to each state, local and/or foreign jurisdiction. The adjustment assumes

[Table of Contents](#)

full exchange of existing unitholders Holdings units for shares of Class A common stock of the Company and reflects the tax effect of any proforma adjustments.

- (6) Represents the elimination of the non-controlling interest associated with the ownership by existing unitholders of Holdings (excluding FXCM Inc.), as if the unitholders had fully exchanged their Holdings units for shares of Class A common stock of the Company.
- (7) Represents the reclassification of the portion of the 49.9% of Lucid's earnings attributed to non-controlling interests recorded as compensation for U.S. GAAP purposes to Net (loss) income attributable to other non-controlling interests and the impact of other pro forma adjustments impacting non-controlling interests.
- (8) Represents the elimination of IPO stock-based compensation.
- (9) Diluted shares assuming all unitholders had fully exchanged their Holdings units for shares of Class A common stock of the Company.

The following table reconciles adjusted EBITDA to Adjusted Pro Forma Net Income, as presented and reconciled in the prior table for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,				Six Months Ended June 30,			
	(In thousands)							
	Adjusted Pro Forma		U.S. GAAP		Adjusted Pro Forma		U.S. GAAP	
	2014	2013	2014	2013	2014	2013	2014	2013
Net (loss) income attributable to FXCM Inc.	\$ (1,534)	\$ 23,300	\$ (3,078)	\$ 10,124	\$ 3,661	\$ 40,817	\$ (1,001)	\$ 16,984
Net (loss) income attributable to non-controlling interest in FXCM Holdings, LLC	—	—	(2,209)	14,093	—	—	218	24,323
Net (loss) income attributable to other non-controlling interests	(553)	8,043	(2,868)	(6,961)	1,051	11,921	(4,527)	(3,083)
(Benefit) provision for income taxes	(724)	9,365	(747)	6,390	1,454	18,960	504	14,349
Depreciation and amortization	13,122	12,481	13,122	12,481	25,752	24,455	25,752	24,455
Interest on borrowing	3,096	1,290	3,096	1,290	6,093	2,107	6,093	2,107
Adjusted EBITDA	\$ 13,407	\$ 54,479	\$ 7,316	\$ 37,417	\$ 38,011	\$ 98,260	\$ 27,039	\$ 79,135

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Obligations Resulting from Joint and Several Liability Arrangements

In February 2013, the FASB issued ASU No. 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*. This standard requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date as the sum of (i) the amount the entity agreed to pay on the basis of its arrangement among its co-obligors and (ii) any additional amount it expect to pay on behalf of its co-obligors.

ASU No. 2013-04 is effective for fiscal years and interim periods beginning after December 15, 2013, but earlier adoption is permitted. Upon adoption, the standard should be applied retrospectively to all prior periods presented. This guidance became effective for the Company on January 1, 2014 and did not have a material impact on the presentation of the Company's unaudited condensed consolidated financial statements.

*Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of an Investment within a Foreign Entity
or of an Investment in a Foreign Entity*

[Table of Contents](#)

In March 2013, the FASB issued ASU No. 2013-05, *Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in Foreign Entity*. This standard addresses whether consolidation guidance or foreign currency guidance applies to the release of the cumulative translation adjustment into net income when a parent sells all or a part of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or net assets that are a business (other than a sale of in-substance real estate) within a foreign entity. The standard also resolves the diversity in practice for the cumulative translation adjustment treatment in business combinations achieved in stages involving foreign entities.

Under this standard, the entire amount of the cumulative translation adjustment associated with the foreign entity should be released into earnings when there has been: (i) a sale of a subsidiary or group of net assets within a foreign entity and the sale represents a complete or substantially complete liquidation of the foreign entity in which the subsidiary or the net assets had resided; (ii) a loss of a controlling financial interest in an investment in a foreign entity; or (iii) a change in accounting method from applying the equity method to an investment in a foreign entity to consolidating the foreign entity.

ASU No. 2013-05 is effective for fiscal years and interim periods beginning after December 15, 2013, and will be applied prospectively. This guidance became effective for the Company on January 1, 2014 and did not have a material impact on the presentation of the Company's unaudited condensed consolidated financial statements.

Presentation of Unrecognized Tax Benefits

In July 2013, the FASB issued ASU No. 2013-11, *Presentation of Unrecognized Tax Benefits When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This standard requires a liability related to unrecognized tax benefits to be presented as a reduction to the related deferred tax asset for a net operating loss carryforward or a tax credit carryforward. When the carryforwards are not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the applicable jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit will be presented in the financial statements as a liability and will not be combined with the related deferred tax asset.

ASU No. 2013-11 is effective for fiscal years and interim periods beginning after December 15, 2013, but earlier adoption is permitted. Upon adoption, the standard should be applied prospectively to unrecognized tax benefits that existed at the effective date. Retrospective application is permitted. This guidance became effective for the Company on January 1, 2014 and did not have a material impact on the presentation of the Company's unaudited condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

Reporting Discontinued Operations

In April 2014, the FASB issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. Under this standard, a discontinued operation will include a disposal of a major part of an entity's operations and financial results such as a separate major line of business or a separate major geographical area of operations. The standard also raises the threshold to be a major operation but no longer precludes discontinued operations presentation where there is significant continuing involvement or cash flows with a disposed component of an entity. The standard expands disclosures to include cash flows where there is significant continuing involvement with a discontinued operation and the pre-tax profit or loss of disposal transactions not reported as discontinued operations. The standard is effective prospectively for years beginning on or after December 15, 2014, with early application permitted. The Company plans to adopt the standard prospectively on its required effective date of January 1, 2015 and the impact, if any, on the Company's consolidated financial condition, results of operations or cash flows will be dependent on the nature of future disposals.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The standard states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard sets out the following five steps an entity should apply to achieve this core principle.

- Identify the contract(s) with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.

- Recognize revenue when (or as) the entity satisfies a performance obligation.

[Table of Contents](#)

For a public entity, the standard is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is currently evaluating the impact this standard will have on its consolidated financial condition, results of operations, cash flows and disclosures and is currently unable to estimate the impact of adopting this guidance.

Contractual Obligations and Commercial Commitments

The following table reflects a summary of our contractual obligations and other commercial commitments at June 30, 2014:

	As of June 30, 2014				
	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	More Than 5 Years
	(In thousands)				
Lease obligations	\$ 44,999	\$ 3,166	\$ 14,986	\$ 6,955	\$ 19,892
Credit Agreement ⁽¹⁾	27,983	605	27,378	—	—
Lucid Note Payable ⁽²⁾	7,534	7,534	—	—	—
Contingent put options ⁽³⁾	2,283	2,283	—	—	—
Convertible Notes	188,026	1,941	11,644	174,441	—
Vendor obligations	1,043	602	441	—	—
Total	\$ 271,868	\$ 16,131	\$ 54,449	\$ 181,396	\$ 19,892

- (1) Assumes there will be no other increases to the amount borrowed at June 30, 2014 and the outstanding balance will be paid upon expiration of the facility. Includes commitment fees using the rates in effect as of June 30, 2014.
- (2) Principal plus interest at the stated rate of 2.25%.
- (3) See Note 13 to our unaudited condensed consolidated financial statements. Assumes exercise of remaining put options in the third quarter of 2014.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Currency risk

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of our assets denominated in foreign currencies as well as our earnings due to the translation of our statements of financial condition and statement of operations from local currencies primarily to U.S. dollars. We currently have limited exposure to currency risk from customer open positions as we utilize an agency model, simultaneously entering offsetting trades with both our customers and FX market makers. However, we do incur currency mismatch risk arising from customer accounts denominated in one currency being secured by cash deposits in a different currency. As exchange rates change, we could suffer a loss.

As of June 30, 2014, 3.51% of our net assets (assets less liabilities) were in British pounds, 0.44% in Euros, 7.55% in Japanese yen, and 2.79% in Hong Kong dollars, and 1.41% in all other currencies than the US dollar. For illustrative purposes, if each of these currencies were to adversely change by 10% with no intervening hedging activity by ourselves, this would result in a pre-tax loss (gain) of \$2.3 million in the case of British pounds, \$0.3 million for Euros, \$4.9 million for Japanese yen, and \$1.8 million for Hong Kong dollars.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will impact our financial statements. Our cash and customer cash (on which we do not pay interest) is held primarily in short-term demand deposits at banks and at our FX market makers. Interest rates earned on these deposits and investments affects our interest revenue. We currently derive a minimal amount of interest income on our cash balances as interest rates are near-zero. Based on cash and customer cash held at June 30, 2014 we estimate that a 50 basis point change in interest rates would increase our annual pretax income by approximately \$8.3 million.

[Table of Contents](#)

We also earn a spread on overnight position financing (rollovers) and the interest differential our customers earn or pay depends on whether they are long a higher or lower yielding currency relative to the currency they borrowed. Currently interest rate differentials globally are at low levels and we earn a minimal amount of income from our spread on rollover.

The Senior convertible notes pay a fixed rate of interest and are not subject to fluctuations in interest rates. If we were to refinance the debt, the interest rates in effect at that time may be different than the existing fixed rate. Our Credit Agreement exposes us to risk due to the variable interest rate under the terms of the agreement. Based on the current outstanding balance and benchmark rate, if the rate were to increase or decrease by 10%, the impact to interest expense would be less than \$0.1 million.

Credit risk

Credit risk is the risk that a borrower or counterparty will fail to meet their obligations. We are exposed to credit risk from our retail and institutional customers as well as institutional counterparties.

All retail customers are required to deposit cash collateral in order to trade on our platforms. Our policy is that retail customers are not advanced credit in excess of the cash collateral in their account and our systems are designed so that each customer's positions are revalued on a real-time basis to calculate the customer's usable margin. Usable margin is the cash the customer holds in the account after adding or deducting real-time gains or losses, less the margin requirement. The retail customer's positions are automatically closed once his or her usable margin falls to zero. Exposure to credit risk from customers is therefore minimal. While it is possible for a retail customer account to go negative in rare circumstances, for example, due to system failure, a final stop loss on the account is automatically triggered which will execute the closing of all positions. For the six months ended June 30, 2014 and 2013, our credit exposure was \$0.4 million and \$2.2 million, respectively, as a result of customer accounts that had gone negative.

Institutional customers are permitted credit pursuant to limits set by the prime brokers that we use. As part of our arrangement with our prime brokers, they incur the credit risk regarding the trading of our institutional customers.

In addition, we are exposed to the following institutional counterparties: clearing and prime brokers as well as banks with respect to our own deposits and deposits of customer funds. We are exposed to credit risk in the event that such counterparties fail to fulfill their obligations. We manage the credit risk arising from institutional counterparties by setting exposure limits and monitoring exposure against such limits, carrying out periodic credit reviews, and spreading credit risk across a number of different institutions to diversify risk. As of June 30, 2014, our exposure to our three largest institutional counterparties, all major global banking institutions, was 33.7% of total assets and the single largest within the group was 15.2% of total assets. As of December 31, 2013, our exposure to our three largest institutional counterparties, all major global banking institution, was 33.0% of total assets and the single largest within the group was 13.4% of total assets.

Market risk

Market risk is the risk of losses in on- and off-balance sheet positions arising from movements in market prices. Generally, we incur market risk as a result of trading in our retail business, Lucid and V3. As we predominantly operate our retail business on an agency model with the exception of certain trades of our CFD customers we are not exposed to the market risk of a position moving up or down in value. As of June 30, 2014, our net unhedged exposure to CFD customer positions was 5.15% of total assets. A 10% change in the value of our unhedged CFD positions as of June 30, 2014 would result in an \$12.2 million decrease in pre-tax income.

Lucid exposes us to market risk in the institutional foreign exchange market. Lucid has risk limits by currency, trading strategy and overall exposure which are monitored continuously. In addition, Lucid seeks to close all open positions by the end of each foreign exchange trading day in New York. The average intra-day gross notional position in the three months ended June 30, 2014 was \$20.3 million and the maximum intra-day gross position was \$82.0 million. A 10% fully correlated decrease in value at the maximum intra-day position would result in a \$8.2 million decrease in consolidated pre-tax income.

V3's market making and trading activities expose us to market risk. Market risks include price risk, volatility risk, liquidity risk and interest rate risk. Further risks may result from unexpected market reactions to economic data. V3 monitors these risks through risk limits, continuously monitoring positions and hedging strategies. The control processes are designed to cap daily losses at approximately \$0.3 million.

[Table of Contents](#)***Liquidity risk***

In normal conditions, our business of providing online FX trading and related services is self-financing as we generate sufficient cash flows to pay our expenses as they become due. As a result, we generally do not face the risk that we will be unable to raise cash quickly enough to meet our payment obligations as they arise. Our cash flows, however, are influenced by customer trading volume and the income we derive on that volume. These factors are directly impacted by domestic and international market and economic conditions that are beyond our control. In an effort to manage this risk, we maintain a substantial pool of liquidity. As of June 30, 2014, cash and cash equivalents, excluding cash and cash equivalents held for customers, were 14.7% of total assets.

Operational risk

Our operations are subject to various risks resulting from technological interruptions, failures, or capacity constraints in addition to risks involving human error or misconduct. Regarding technological risks, we are heavily dependent on the capacity and reliability of computer and communications systems supporting our operations. We have established a program to monitor our computer systems, platforms and related technologies and to address issues that arise promptly. We have also established disaster recovery facilities in strategic locations to ensure that we can continue to operate with limited interruptions in the event that our primary systems are damaged. As with our technological systems, we have established policies and procedures designed to monitor and prevent both human errors, such as clerical mistakes and incorrectly placed trades, as well as human misconduct, such as unauthorized trading, fraud, and negligence. In addition, we seek to mitigate the impact of any operational issues by maintaining insurance coverage for various contingencies.

Regulatory capital risk

Various domestic and foreign government bodies and self-regulatory organizations responsible for overseeing our business activities require that we maintain specified minimum levels of regulatory capital in our operating subsidiaries. If not properly monitored or adjusted, our regulatory capital levels could fall below the required minimum amounts set by our regulators, which could expose us to various sanctions ranging from fines and censure to the imposition of partial or complete restrictions on our ability to conduct business. To mitigate this risk, we continuously evaluate the levels of regulatory capital at each of our operating subsidiaries and adjust the amounts of regulatory capital in each operating subsidiary as necessary to ensure compliance with all regulatory capital requirements. These may increase or decrease as required by regulatory authorities from time to time. We also maintain excess regulatory capital to provide liquidity during periods of unusual or unforeseen market volatility, and we intend to continue to follow this policy. In addition, we monitor regulatory developments regarding capital requirements to be prepared for increases in the required minimum levels of regulatory capital that may occur from time to time in the future. As of June 30, 2014, we had \$99.4 million in regulatory capital requirements at our regulated subsidiaries and \$311.8 million of capital on a consolidated basis.

Regulatory risk

We operate in a highly regulated industry and are subject to the risk of sanctions from U.S., federal and state, and international authorities if we fail to comply adequately with regulatory requirements. Failure to comply with applicable regulations could result in financial and operational penalties. In addition, efforts to comply with applicable regulations may increase our costs and/or limit our ability to pursue certain business opportunities. Federal and state regulations significantly limit the types of activities in which we may engage. U.S. and international legislative and regulatory authorities change these regulations from time to time. See "Item 1A. Risk Factors," in our Annual Report for the year ended December 31, 2013.

Item 4. Controls and Procedures**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2014. Based upon that evaluation and subject to the foregoing, our Chief Executive Officer and Chief Financial

[Table of Contents](#)

Officer concluded that, as of June 30, 2014, the design and operation of our disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

On January 21, 2014, the Company, through a new entity, V3, completed its acquisition of certain assets of Infinium. Management has considered this transaction material to the results of operations, cash flows and financial position from the date of the acquisition through June 30, 2014, and believes that the internal controls and procedures of the acquisition have a material effect on internal controls over financial reporting. In accordance with SEC guidance, management has elected to exclude V3 from its December 31, 2014 assessment of and report on internal controls over financial reporting. The Company is currently in the process of incorporating the internal controls and procedures of V3 into the internal controls over financial reporting for our assessment of and report on internal controls over financial reporting for December 31, 2015. Management has not identified any other changes in the Company's internal control over financial reporting that occurred during the three months ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

[Table of Contents](#)**PART II — OTHER INFORMATION****Item 1. Legal Proceedings**

Other than described below, there have been no material developments to any of our current legal proceedings described in our Annual Report on Form 10-K for the year ended December 31, 2013, nor have there been any legal proceedings during the three months ended June 30, 2014.

In January 2014, the equity Receiver for a former client of US, Revelation Forex Fund (“Revelation”), its principal, Kevin G. White (“White”), and related entities RFF GP, LLC (“RFF”), KGM Capital Management, LLC (“KGM”)(collectively “Fund”), filed suit against US, and certain unrelated defendants, in Texas state court. The suit alleges that US is liable under the Texas Securities Act, and the common law: (i) as a “control person;” and, (ii) as an aider and abettor of fraud and a breach of fiduciary obligations; and, (iii) for its negligence. The Receiver seeks joint and several liability for damages in excess of \$3.8 million, plus exemplary damages under Texas law, interest, and attorneys’ fees. On February 7, 2014, US filed the equivalent of a motion to dismiss and to compel arbitration based on the mandatory forum selection clause and arbitration agreement in its Client Agreement with the Fund. It also filed an Answer with multiple affirmative defenses. The Trial Court heard argument on FXCM’s motions to dismiss and entered an order denying them without findings of fact or conclusions of law. On March 18, FXCM filed a Notice of Appeal of the Trial Court’s denial of its motion to compel arbitration. On April 16, FXCM filed a Petition for a Writ of Mandamus Petition to appeal the denial of its motion to dismiss based on the forum selection clause and filed a brief on its appeal seeking to enforce its motion to compel arbitration. Both the Petition and Appeal are pending.

In February 2014, UK and FSL entered into a settlement with the FCA following an investigation into trade execution practices of UK and FSL in the period from 2006 to 2010, as well as a breach of notification obligations to the FCA. UK and FSL agreed to pay (a) restitution to affected clients up to \$9.9 million; and (b) a financial penalty of GBP 4.0 million, together with any unclaimed restitution. As of June 30, 2014, the Company accrued \$1.8 million in additional restitution.

In April 2014, the Securities and Futures Commission (“SFC”) initiated an investigation relating to HK’s past trade execution practices concerning the handling of price improvements in our trading system prior to August 2010. HK continues to comply with information requests from SFC.

In July 2014, US settled a complaint brought by the National Futures Association (“NFA”) relating to charges of doing business with an unregistered entity and for failing to submit certain trade data reports and was fined \$200,000.

For the outstanding matters referenced above for which a loss is more than remote but less than likely, whether in excess of an accrued liability or where there is no accrued liability, we have estimated a range of possible loss. We believe the estimate of the aggregate range of possible loss in excess of accrued liabilities for such matters is between zero and \$4.7 million as of June 30, 2014.

In view of the inherent difficulty of predicting the outcome of litigation and claims, we cannot predict what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss related to each pending matter may be. Furthermore, the above-referenced matters represented in the estimated aggregate range of possible loss will change from time to time and actual results may vary significantly from the current estimate. An adverse outcome in one or more of these matters could be material to our results of operations or cash flows for any particular reporting period.

Item 1A. Risk Factors

There have been no material changes in the Company’s risk factors from those disclosed in its Annual Report on Form 10-K for the year ended December 31, 2013.

The risks described in our filings with the SEC are not the only risks facing us. Additional risks and uncertainties, not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

[Table of Contents](#)**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds***(a) Unregistered Sales of Equity Securities*

None.

(b) Purchase of Equity Securities by the Issuer

Shares of Class A common stock repurchased by the Company during the three months ended June 30, 2014 were as follows:

Issuer Repurchases of Equity Securities

Period	Total Number of Shares Repurchased*	Average Price Paid per Share **	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Month 1: April 1, 2014 to April 30, 2014	—	—	4,985,534	18,087,341.57
Month 2: May 1, 2014 to May 31, 2014	45,985	14.02	5,031,519	17,442,746.83
Month 3: June 1, 2014 to June 30, 2014	—	—	5,031,519	17,442,746.83
Total	45,985	14.02	5,031,519	17,442,746.83

* As of Settlement Date

** Average Price including Commission

On May 17, 2011 and October 17, 2011, our Board of Directors approved the repurchase of \$30.0 million and \$20.0 million of FXCM Inc.'s Class A common stock (the "Stock Repurchase Program"), respectively. On November 7, 2012, our Board of Directors approved a \$30.0 million increase in the Stock Repurchase Program for an aggregate of \$80.0 million. As of June 30, 2014, we have repurchased 5.0 million shares for \$62.6 million under these authorizations. The Company is not obligated to purchase any shares under the Stock Repurchase Program which does not have an expiration date.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

On August 7, 2014, the Company entered into a Seventh Amendment to the Credit Agreement by and among FXCM Holdings, LLC, Bank of America, N.A., as Administrative Agent and certain lenders from time to time parties thereto (the "Seventh Amendment"). The Seventh Amendment, attached hereto as Exhibit 10.1, reduces the Aggregate Revolving Commitments of the lenders to \$150.0 million and modifies certain terms of the Credit Agreement.

Item 6. Exhibits

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

[Table of Contents](#)

Exhibit Number	Description of Exhibit
10.1*	Seventh Amendment to Credit Agreement, dated August 7, 2014 by and among FXCM Holdings, LLC, Bank of America, N.A., as Administrative Agent and lender who are parties thereto.
31.1*	Certification required by Rule 13a-14(a).
31.2*	Certification required by Rule 13a-14(a).
32.1**	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.NS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Document
101.LAB**	XBRL Taxonomy Extension Labels Document
101.PRE**	XBRL Taxonomy Extension Presentation Document
101.DEF**	XBRL Taxonomy Extension Definition Document

* Filed herewith.

** Furnished herewith.

[Table of Contents](#)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report to be signed on its behalf by the undersigned thereunto duly authorized.

FXCM INC.

Date: August 8, 2014

By /s/ Dror (Drew) Niv

Dror (Drew) Niv
Chief Executive Officer
(Principal Executive Officer)

Date: August 8, 2014

By /s/ Robert Lande

Robert Lande
Chief Financial Officer
(Principal Financial Officer)